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AGRICULTURAL TRADE AMENDMENT ACT OF 1985

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

ON

S. 721

A BILL TO AMEND THE COMMODITY CREDIT CORPORATION CHARTER ACT REGARDING THE EXPORT OF AGRICULTURAL COMMODITIES (AGRICULTURAL TRADE AMENDMENT ACT OF 1985)

APRIL 4, 1985

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

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AGRICULTURAL TRADE AMENDMENT ACT OF 1985 (S. 721)

THURSDAY, APRIL 4, 1985

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 2:08 p.m., in room SR-328-A, Russell Senate Office Building, Hon. David Boren, presiding.

Present: Senators Boschwitz, McConnell, Zorinsky, and Boren.

STATEMENT OF HON. DAVID L. BOREN, A U.S. SENATOR FROM OKLAHOMA

Senator BOREN. The committee will come to order.

Senator Boschwitz asked that I go ahead and begin the hearing. He has been detained but he will be along shortly.

This is, of course, a hearing on S. 721, relating to cargo preference.

I appreciate very much the chairman of the subcommittee and the chairman of the full committee calling this hearing on S. 721, the Agricultural Trade Amendment Act. I strongly believe that we must act swiftly to enact legislation to reverse the court case which expanded the scope of cargo preference requirements.

The decision by Judge Green in the *Transportation Institute* case has resulted in the discontinuation of the Blended Credit Program by drastically reducing the resources available for promoting export sales of agricultural commodities.

Yesterday, the Secretary of Agriculture announced the administration's support for this legislation. As the Secretary stated, "Since application of cargo preference would result in significant additional Federal cost, we are simply unable to fully utilize our commercial export initiatives if they are subject to cargo preference."

To fully understand the legislation before us today, it is necessary to provide to the committee a little background on the issue.

The Cargo Preference Act of 1954 requires that at least 50 percent of cargo shipped under certain Government programs be transported on privately owned, U.S.-flag vessels, provided such vessels are available at fair and reasonable rates.

For many years, the Government has taken the position that the law was applicable to U.S. donation and foreign aid programs, which provide concessional terms, but not to export programs,

which are designed to result in the sale on the best terms and conditions available on the world market.

The USDA has applied cargo preference requirements to Public Law 480, the food for peace sales and donations, and to donations under section 416 of the Agricultural Act of 1949. Under those programs, the added freight costs of U.S.-flag shipment are paid by the U.S. Government.

In a landmark court decision on February 21, the U.S. District Court in Washington, DC, ruled that the Commodity Credit Corporation's Blended Credit Program was subject to the Cargo Preference Act of 1954.

On February 26, the Agriculture Department announced, pursuant to the court's decision, that it was suspending approval of all registration for blended credit programs for Egypt, Iraq, Morocco, and Tunisia, effectively negating some $536 million, 3.6 million metric tons' worth of grain export.

Prior to the ruling, the Department of Agriculture had been abiding by a 1963 Justice Department opinion, exempting direct credit, blended credit, and credit guarantees from the 50 percent U.S.-flag vessel cargo preference rule. The recent court ruling negates the previous decision with respect to blended credit programs. Additionally, the ruling opens the door for application of cargo preference to the GSM-102 Credit Guarantee Program. The decision by the court was a major expansion of cargo preference and will prove very costly to the United States through reduced farm exports.

I would ask unanimous consent that the balance of my opening statement appear in the record.[1]

I would say that this is a very serious matter for us in agriculture, where we are already dealing with very depressed conditions. Many farmers are on the verge of bankruptcy, some are in the actual process of having their farming operations dissolved at this moment. Anything which strikes at the ability to expand exports strikes at the economic heart of any opportunity to improve conditions in agriculture.

It is not that any of us from the agricultural sector are insensitive to the need to also have a very strong U.S.-flag vessel component, for national security reasons. We need to have a strong domestic maritime industry, American flag maritime industry; we need to have a strong merchant marine. We feel it is unfair to ask the agricultural sector to bear far more than its own share of providing these subsidies to keep these jobs in existence and to keep these shipping programs in operation. The cost of a program that is in the national security interest should be borne by all Americans.

We took the added cost of paying cargo preference under agricultural programs by the Government last year. We took the number of crew members involved in the U.S.-flag vessels that carried that agricultural produce into the world market during the same period and we found that it amounted to a subsidy of $58,000, from the agricultural programs, for every crew member of these ships.

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[1] See p. 40 for the prepared statement of Senator Boren.

Now, I may be able to explain to my farmers in Oklahoma why it is important that we have a maritime industry in this country. I may be able to explain to them why it is important to our national security. But when they themselves have been experiencing a desperately low average net income for several years, it is hard to explain to them why the agricultural budget for agricultural programs designed to help our exports and help their economic condition are subsidizing people to the tune of $58,000 per job. That is an explanation that simply cannot be accepted by people who are themselves undergoing such financial stress.

There are many of us who, for a long time, have felt that agriculture is bearing more than its fair share of national security costs, whether it be in these kinds of direct subsidies to other sectors, when agriculture is not in the position to provide those subsidies, or in the case of embargoes, where the agricultural sector has borne more than its fair cost of foreign policy decisions.

So, there are numerous problems with which to deal here. It is not a matter of the hostility of one sector of the economy for another; it is a matter of basic fairness and trying to deal with a situation which has greatly expanded the burden and the potential impact on a sector of our economy that simply is not able to bear this additional burden.

I see Senator Zorinsky has just come in.

Do you have any opening comments, Senator Zorinsky, before I turn to Senator Nickles as our first witness?

Senator ZORINSKY. Mr. Chairman, I ask that my statement be placed in the record.[1]

Senator BOREN. Without objection, so ordered.

Our first witness this afternoon is my colleague from the State of Oklahoma who has been very active in promoting this legislation. He has joined in offering his own legislation and cosponsoring other legislation on this subject. The committee is very glad to have you here today, and we recognize Senator Nickles at this time to make any comments that he might like.

STATEMENT OF HON. DON NICKLES, A U.S. SENATOR FROM OKLAHOMA

Senator NICKLES. Thank you, Mr. Chairman.

I am pleased to join with you on the legislation which you, Senator Boschwitz, and others have cosponsored, which would amend the Commodity Credit Corporation charter. As you stated, I have also introduced legislation under a different title which amends the Merchant Marine Act, and it is now pending in the Commerce Committee. As I am sure you are aware, we also have the chairman of the Commerce Committee as a cosponsor of that legislation.

Mr. Chairman, I think it is vitally important that we overturn the district court's decision that expands cargo preference to the Blended Credit Program.

Agriculture is suffering today, and one of the reasons why is because we are not exporting enough of our commodities. The net result of this court decision is that it will to be that much more

[1] See p. 39 for the prepared statement of Senator Zorinsky.

difficult, that much more expensive, to export American agricultural commodities overseas—the cost of which should not be borne by the farmer. We should certainly not be penalizing the farmer. As a direct result of this court decision, we have $536 million of agricultural commodities that are sitting on the docks today that will not be shipped until we get this issue resolved. We need to resolve it, and we need to resolve it today.

I was pleased to join with you and Secretary Block yesterday, and I appreciate the fact that he made a strong statement in support of our legislative efforts. Mr. Chairman, I will submit for the record a copy of the letter I received yesterday from the Secretary of Agriculture, Jack Block, stating his strong support and the Department of Agriculture's strong support for this bill.

[The following letter was received by the committee:]

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, DC, April 3, 1985.

Hon. DON NICKLES,
U.S. Senate,
Washington, DC.

DEAR DON: This is to inform you of the Department of Agriculture's position on your bill, S. 664, a bill "To promote the competitiveness of exports of United States agricultural products."

The Department supports enactment of the bill.

The bill provides for an exemption from section 901 of the Merchant Marine Act of 1936 (46 U.S.C. 1241) and the Joint Resolution of March 26, 1934 (48 Stat. 500, 46 U.S.C. 1241-1) for all export activities of the Commodity Credit Corporation (CCC) or the Department of Agriculture (USDA) which promote commercial exports of United States agricultural commodities or products thereof. The bill would not exempt food assistance programs, such as food assistance under the Agricultural Trade and Development Assistance Act of 1954 (P.L. 480) and Section 416 of the Agricultural Act of 1949 as amended, or programs of other agencies, such as the direct loan programs of the Export Import Bank.

Application of cargo preference to export promotion programs of the CCC or USDA would cause higher budgetary outlays, reduce competitiveness for U.S. agricultural exports at a critical time, and increase difficulty in administering the programs. Under the original Blended Credit Program, the cost to CCC for foregoing interest on the GSM-5 portion was estimated at $4 per $100 of program value spread over three years. If cargo preference were applied, the cost of the program would increase to $12 per $100 of program value spread over three years. In addition, approximately 80 percent of that cost would be required as an immediate initial outlay.

The total cost of cargo preference through payments of ocean freight differentials for the current Blended Credit Program would be between $40 and $50 million. The cost of applying cargo preference to the existing FY 85 level of the GSM-102 program would be prohibitive.

The expansion of cargo preference to cover these additional programs also raises serious problems as to the difficulties of ensuring against fraud and abuse in administering the ocean freight differential payments and the availability of appropriate U.S. flag vessels.

The Office of Management and Budget advises that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

JACK.

Senator NICKLES. It is unfortunate, as you are probably aware—and you might have read this in this morning's paper—that the Department of Transportation has another idea. Now, I contacted the Department of Transportation, and the answer that they gave me was that they would like to pursue this in court and try to overturn that court decision. I do not dispute that; I think we

should try both. First, I think we should try a legislative remedy, such as the bill that you have introduced which is now in the Agriculture Committee, or the bill that I have introduced, which is in the Commerce Committee. As I told my good friend and colleague from Oklahoma, it is my intention to try and amend this on the floor as soon as we get back in session. We have been advised by Senator Dole that we will have a vehicle up, the Merchant Marine War Risk Act, that will be on the floor as soon as we return, and it is my intention to put this amendment on that bill at that time. I just hope that we will be successful. I hope and I believe that we will be successful.

I think, Mr. Chairman, that it is vital that we move forward now in a legislative remedy, instead of allowing this thing to be tied up in court for no telling how long. It could be tied up for months. In the meantime, we will find that these commodities will not be shipped; we will be abrogating agreements that we have made with Egypt and Morocco and other countries. We need to be moving those agricultural commodities today. They are sitting on the docks today. We need to move them out. The taxpayers should not have that additional responsibility placed on their shoulders, and certainly, I agree with you that it should not be charged to the CCC.

If we are going to have a merchant marine subsidy, which last year cost over $100 million, I think we certainly should have it moved over and put it either under the Department of Defense or the Department of Transportation, and not have it under the Commodity Credit Corporation. To me, that is almost an insult to farmers. When you look at the amount of subsidies received—you mentioned the amount of subsidies per seafarer—I looked last year at the amount of subsidy that some individual companies received. We looked at Lykes Steamship, they received almost $10 million last year; other shipping companies, $9 million, $7.5 million, $7.4 million, and $5 million.

These companies, Mr. Chairman, this year will receive subsidies probably 30, 40, or 50 percent larger than that because, according to the USDA Foreign Agriculture Service, Public Law 480 shipments last year totaled 5.9 million metric tons, and in 1985, they are estimated to reach 9.7 million metric tons. That is a 64-percent increase in tonnage and all of those merchant marine companies will be receiving additional subsidies for everything that is shipped under Public Law 480.

I think it is important to let people know that the legislation which you and I have introduced does not repeal cargo preference for the Public Law 480 program. It only says that we overturn the court ruling as it applies to the Blended Credit Program, and an export PIK, nor would cargo preference apply to the GSM-102 program. It has never applied to those programs in the past, and certainly, it should not be allowed to apply now or in the future.

We need to be helping out agriculture and certainly not doing something that is very much to its detriment by prohibiting us from being able to export our commodities.

I appreciate the support that you have shown on this issue, and Senators Zorinsky, Boschwitz, and others. I just hope that we will be successful in the next couple of weeks in a quick, bipartisan

fashion, on both the floor of the House and the Senate, by being able to overturn this court decision.

Thank you, Mr. Chairman.

Senator BOREN. Thank you very much, Senator Nickles.

Do you have an estimate of either what percentage or how much per bushel, say, in the case of grain, that applying the cargo preference to the Blended Credit Program would add to the cost of shipping that grain?

Senator NICKLES. Well, just the cost of the shipping in wheat, for example—and I think you would apply pretty much the same thing for soybeans. The estimates that we have seen have sort of bounced around, but you are looking at anywhere from, I have heard, 40 cents a bushel; our farmers have been telling us more along the line of 75 cents, even up to $1 per bushel, which just costs the taxpayers through the USDA budget an enormous amount.

So it really makes very little sense. One can argue the debate on merchant marine, but they are going to receive a substantial increase in subsidy just from the amount that we are increasing on the Public Law 480 Program. If we expand cargo preference over to the GSM-102 Program—which the judge stated her support of although her court did not rule on the question—it could cost taxpayers millions and millions of dollars. USDA estimates application of cargo preference to GSM-102 would require additional outlays of over $500 million, and possibly as much as $600 million. That is 6½ times what we spent last year.

The extension of cargo preference to blended credit, they estimate, would increase the cost $40 to $50 million. Again, I say, Mr. Chairman, they are already receiving probably an estimated $40 million increase just as it applies, because we are doing that much additional traffic under the Public Law 480 Program, which neither of our legislation touches.

Senator BOREN. In terms of just waiting until the court acts, and the suggestion that we should only follow that route as opposed to legislation, you raise the question of time. Might it not also be the case that it would allow some people merely to avoid voting to take action now, under the guise, even knowing it would be a long delay, of saying, well, wait until the courts act?

Senator NICKLES. I think it is exactly that. I think the administration needs to get their act together, I think the Transportation Department needs to support the Department of Agriculture. We have strong support throughout the agriculture community for this. If an economist looks at it, I think, if anybody looks at it, we are right on the merits.

Now, one can argue the merits and say that maybe it should be done in the courts, because it is a court case that expanded it. I do not have any disagreement with fighting and trying to appeal this court decision, but simultaneously I think we need to aggressively pursue legislation. I will tell the chairman that I have contacted the Department of Transportation and displayed my disgust at the fact that they were saying, "Well, we think we should just do a court appeal instead of pursuing the legislative remedy." I think we need to aggressively pursue both and take whichever one prevails first as the best remedy.

Senator BOREN. Senator Zorinsky, any questions?

Senator ZORINSKY. No; I support your efforts, Senator Boren, and those of your colleague, Senator Nickles. I assume you both received a telegram from the Department of Transportation, indicating its belief that a judicial remedy would be preferable. Certainly, whatever comes first, a legislative or a judicial remedy would be in the best interest of American agriculture.

Senator NICKLES. I appreciate your efforts.

I want to thank the chairman and also thank Senator Boschwitz. We are fighting this on several fronts, in both the House and the Senate, fighting it in the courts, fighting it legislatively, and I think we need to. I think we need a full-court press, and just do everything we can do to overturn this decision. I am glad that we have this type of bipartisan support. Hopefully, we will be successful.

Senator BOREN. We appreciate your comments very much, and appreciate your taking time to come before the committee, we will put all of your remarks into the record.

Also, I hope we can get a clear statement from the administration. I think we ought to pursue both fronts, and I hope that the White House will come out and say that in essence, it endorses both the court action suggested by the Transportation Department and quick passage of this legislation that the Secretary of Agriculture has endorsed.

Senator NICKLES. Thank you very much.

Senator BOREN. Thank you.

Our next witness will be Daniel Amstutz, Under Secretary for International Affairs and Commodity Programs, U.S. Department of Agriculture.

Mr. Secretary, we are very glad to have you with us today.

STATEMENT OF HON. DANIEL G. AMSTUTZ, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE

Mr. AMSTUTZ. Mr. Chairman, it is good to appear before you and the committee.

I do not have a formal statement, but I have a few opening comments, and then I will be happy to address any questions that you have.

Yesterday, the Secretary of Agriculture announced the administration's support for the goals of legislation introduced by Senators Nickles, Boschwitz, and Boren, and by some Members of Congress on the House side. His statement went on to say:

> These bills would provide that commercial export activities of the Commodity Credit Corporation and the Department of Agriculture, including the Blended Credit Program, would not have to meet the requirements of the Cargo Preference Act.

Mr. Chairman, in your opening remarks, you put your finger right on the issue. The issue is, if you will, a designation of what is commercial and what is concessional.

There is no intent to change the concept of cargo preference as it is applied to concessional sales. That is what we understand is the thrust of the legislation that you have proposed, and that is also the position of the administration.

I believe yesterday in his remarks, the Secretary even spelled out what is deemed to be concessional—Public Law 480, section 416, shipments of wheat under the wheat food security reserve, sales under Public Law 98-332, which are so-called Whitten sales, direct sales to Africa, and direct credits from the Eximbank.

Deemed to be commercial sales are all CCC programs such as GSM-5 direct credits, GSM-102 credit guarantees, and blended credit. Exim loan guarantees are deemed to be commercial, and any new commercial, as opposed to concessional, export enhancement programs that might come along.

So I see some merit, perhaps long overdue, Mr. Chairman, and perhaps the court decision precipitated this clarification of terms.

Senator BOREN. Fine. Thank you very much, Mr. Secretary.

Any questions, Senator Zorinsky?

Senator ZORINSKY. I have no questions.

Senator BOREN. The statement from the Secretary does, then, reflect not just his position but that of the administration and the President as well—am I correct in saying that—in terms of confining the use of cargo preference to those areas where it has been used in the past traditionally, and according to an understanding that we have always had in the past of the law prior to this court decision?

Mr. AMSTUTZ. That is right, Mr. Chairman. Frequently, in discussion of this, I think that the term "status quo" has been used.

Senator BOREN. Yes, to return us back to the situation where we were before this court decision.

Mr. AMSTUTZ. That is right.

Senator BOREN. That is one of the reasons also why, in pushing this particular approach at this time, we felt that we would do it in this manner, rather than more broadly trying to make a change, because it does nearly restore us to the status quo. We understood the President was amenable to doing that. There were some questions about whether we could go further at this point. All the major agricultural organizations in the country also would join in this effort; I think over 90 organizations now have been united behind this.

Thank you very much.

We face an agricultural crisis now, with a record number of bankruptcies, and land values eroding. We know the USDA report, itself, indicated that if current trends continue in the next 12 months as in the past 12 months, we will have some 65 percent of the $214 billion of farm debt in the hands of those who are leveraged at 70 percent or more, in other words, in dire danger of being unable to service this debt in a timely fashion.

I would assume that it would be your opinion that our expansion of exports, not only holding our own, but finding ways to expand our export markets, is extremely important in turning around the situation we have in agriculture right now.

Mr. AMSTUTZ. There is no question overseas markets are vitally important to American farmers. We do think, Mr. Chairman, that we address the overall problem in the proposed farm legislation we have sent up here, and to address this all-important point of competitiveness of American agriculture in overseas markets.

Senator BOREN. It would be a real blow, then, in your opinion, if you were not able to use the blended credit and other programs to the deqree anticipated in your proposal because of cargo preference requirements.

Mr. AMSTUTZ. These programs are enormously important.

Senator BOREN. Thank you very much, Mr. Amstutz.

Mr. AMSTUTZ. Thank you, Mr. Chairman.

Next, we will have a panel composed of Paul Green, chairman, Ad Hoc Committee of Agricultural Organizations Involved in Cargo Preference; Carl F. Schwensen, executive vice president, National Association of Wheat Growers, Washington, DC; Thomas Saylor, who is speaking on behalf of the International Trade Committee of the National Grain and Feed Association; and W. Glenn Tussey, associate director of the Washington office of American Farm Bureau Federation.

We are happy to have all of you here, and we welcome your testimony. If you want to submit more complete statements and summarize your remarks for the record, we would be happy to have you do that.

I will withhold questions until all four of you have had a chance to make your remarks.

Mr. Green.

STATEMENT OF PAUL GREEN, CHAIRMAN, AD HOC COMMITTEE OF AGRICULTURAL ORGANIZATIONS INVOLVED IN CARGO PREFERENCE; ALSO DIRECTOR, INDUSTRY RELATIONS, MILLERS' NATIONAL FEDERATION

Mr. GREEN. Thank you, Mr. Chairman.

I will be summarizing my remarks, and I believe that we have submitted a more complete, detailed statement for the record.[1]

Mr. Chairman, my name is Paul Green, and I am the director of industry relations for the Millers' National Federation. That is the trade association of the U.S. flour milling industry.

It is a pleasure to appear here before the committee today to discuss a serious impediment to the ability of the United States to export agricultural commodities. That is, the expansion of cargo preference requirements into the export promotion programs of the USDA.

The list in front of you of over 90 agriculture-related organizations and corporations are in support of a legislative clarification and limit on cargo preference involvement in agriculture programs.

I am the chairman of an ad hoc group of these organizations which are vitally involved in the outcome of this legislative process.

To avoid duplication with the others on the panel, I will be brief in my remarks.

First, I want to start off by expressing the gratitude of the agriculture community to you, Senator Boren, to Senators Helms, Boschwitz, and Nickles, and all the cosponsors of Senate bills 1664 and 721, which deal with this issue. Leadership in this emotional

[1] See p. 42 for the prepared statement of Mr. Green.

subject is sometimes difficult, and we appreciate your willingness to provide that leadership.

The essential points we wish to make on this issue are these. First of all, the district court's decision to apply the Cargo Preference Act to blended credit is an unprecedented expansion of that act into the commercial, competitive programs of USDA. Up until that decision, the act had never been applied to agriculture programs, other than purely concessional sales.

Second, the application of cargo preference to these competitive programs negates their competitive effects many times over and forces the Government to cancel those same programs. For example, you will be told that blended credit could be continued by merely paying the additional costs of the U.S.-flag vessels. We want to emphasize that blended credit is a direct loan and loan guarantee program whose only—and I emphasize only—cost to the U.S. Treasury was the interest foregone on one-fifth of the value of that commodity, which was covered by a zero interest direct loan under the GSM-5 Program.

Contrary to what you may be told, the application of cargo preference to this program if it had been continued would likely cost as much or more than the entire program's cost in loss to the Treasury. Indeed, to have used the USDA's resources in such a manner would have been counterproductive to the intent of the Blended Credit Program——

Senator BOREN. Now, say that again. In other words, the additional cost due to freight cost would have been——

Mr. GREEN. Would have been as much as the entire cost to the program already.

Senator BOREN. In terms of the interest reduction achieved?

Mr. GREEN. Well, essentially, what we had done was to forego the interest on one-fifth of the values. That is the only additional cost to the U.S. Treasury.

Since it would have been counterproductive to the intent of the Blended Credit Program, it was for that reason that the Blended Credit Program was suspended by USDA immediately following the court decision.

Additionally, this committee should not be complacent about the threat to the GSM-102 Program, since the lawyers from the Transportation Institute have requested USDA files on GSM-102 under the Freedom of Information Act—obviously, the first step in the litigation process.

I need not remind you of the Judge's comment that, if asked, she would have ruled that GSM-102 also fell under the Cargo Preference Act's provisions.

Mr. Chairman, the agricultural exports are in desperate need of new, innovative programs of enhancement, as indicated by the USDA figures for this crop year, which have been revised downward with each new report. In fact, the ag farm bill introduced by members of this very committee has addressed the issue of competitiveness in world markets by proposing new programs for export promotion. To saddle those new programs with this extreme expense of U.S.-flag freight differential will likely kill them before they are implemented.

In summary, then, the loss of the blended credit and GSM-102, the only tools we have for agricultural exports at the present time, will leave the U.S. agricultural industry totally defenseless against the dramatic market losses due to the strength of the dollar, due to unfair trade practices by competitors, and domestic prices which have not adjusted to world market factors. The U.S. will be signalling retreat from world markets at exactly the time we should be charging those markets with new and aggressive programs.

Lastly, I want to address the fact that the legislation being discussed does not cost the maritime industry a single ton of cargo nor a single job. In fact, the destruction of agricultural export programs and especially this Blended Credit Program destroyed jobs in the milling industry, in railroads, in barge operations, and especially on the docks.

I think, Senator Boren, Boschwitz, and Nickles have often pointed out that this is compromise legislation. In fact, there are several groups who would like to see the repeal of this, or the exemption of all agricultural products from cargo preference. This is compromise legislation, which leaves the $110 million subsidy for U.S. flag vessels under title I of Public Law 480 and the $20 million in title II completely untouched.

I will leave the issue of the fact that this money is hidden in the agriculture budget to our statement for the record and for others on this panel to discuss if they wish.

I want to finish by saying how excited the agricultural community is to hear of the administration's support for this clarification and limitation effort. The USDA fought long and hard for this stance interagency and at the White House, as you may see by the current questions. We feel their support will enable us to give the message to every Senator and every Congressman that it is not often that they get a chance to broadly benefit agriculture at no cost to the Government and without costing the merchant marine a single pound of cargo.

It is essential that Congress seize that opportunity and make a strong statement that the U.S. will return to competitiveness in the world agriculture trade.

Senator BOREN. Thank you very much, Mr. Green, for an excellent statement.

It is my understanding that if this applied to GSM-102 credit, in excess of $125 million or more, would be added to those costs, in addition to $40 or $50 million lost for the Blended Credit Program.

Does that pretty much agree with the figures that you have seen, as well?

Mr. GREEN. Under 102, I think it would be even larger than that, Senator. GSM-102 is strictly a loan guarantee program, so there is no outlay of funds from the Federal Government. But the implementation of the cargo preference actions, we believe, would cost between $300 and $400 million.

Senator BOREN. Thank you very much.

Mr. Schwensen.

STATEMENT OF CARL F. SCHWENSEN, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. SCHWENSEN. Thank you, Mr. Chairman.

I am here as a member of the coalition that Mr. Green spoke for, and we are supporting his testimony.

As you understand, wheat is the commodity most affected by the Judge's decision. At stake presently is about 3.6 million metric tons of grain shipments destined to markets that are very important to us, if we are going to be able to maintain our export flow and avoid further price-suppressing stocks to accumulate here in the United States.

Right now, looking at our outstanding forward sales, they are 44 percent lower than they were at this time a year ago. So we can see prospectively that——

Senator BOREN. Is that in volume or dollar value?

Mr. SCHWENSEN [continuing]. That is in volume, Senator—we can see prospectively that we are facing a very serious crisis in terms of our foreign trade. This is true of other commodities that are eligible to use the blended credit programs, as well.

What the cargo preference really means is that we are not going to be able to use these programs to penetrate the market and have access to importers who absolutely require this kind of export assistance to be able to purchase in the U.S. market.

I want to say finally that I, too, want to commend you and Senator Nickles and others who have introduced and cosponsored this legislation. We truly believe it to represent the middle ground on this subject, and we want you to be confident of our continuing support for your good efforts.

Thank you.

Senator BOREN. Thank you very much.

Mr. Saylor.

STATEMENT OF THOMAS R. SAYLOR, VICE PRESIDENT, GARNAC GRAIN CO., ON BEHALF OF INTERNATIONAL TRADE COMMITTEE, NATIONAL GRAIN & FEED ASSOCIATION

Mr. SAYLOR. Thank you, Mr. Chairman.[1]

My name is Thomas Saylor. I am vice president of the Garnac Grain Co., and I am representing the International Trade Committee of the National Grain and Feed Association.

The National Grain and Feed Association, as you probably know, is a voluntary association of grain and feed firms, ranging in size from the smallest to the very largest in the grain and feed complex in the United States.

First, the Grain and Feed Association wants to commend you for taking leadership on S. 721 and to indicate its strong support for that legislation and proposals which would amend the Commodity Credit Corporation's Charter Act to prevent what we believe would be an unintended and debilitating expansion of cargo preference to commercially related Government export credit programs.

We believe that this legislation is important for two reasons. First, of course, is the court's decision recently, which has been

[1] See p. 43 for the prepared statement of Mr. Saylor.

cited, which has basically brought the Blended Credit Program to a halt. The immediacy of this issue could not be overstressed. The crops are produced, and once the market needs are met by alternate supplies, the demand forgone cannot be regained. It did not take very long for the French and other non-U.S. suppliers to move in quickly following the United States decision to expend the application of cargo preference to filling these needs, particularly in the north African countries that were involved in those blended credit allocations.

The second point is, of course, the potential threat to GSM-102. And in the case of GSM-102 credit guarantees, I would say that this is again one of the few tools that the United States has to maintain its competitiveness in the world markets at a time when the U.S. market share has been greatly diminished.

The extension of the cargo preference requirements to GSM-102 would bring an end to the program without compromising assistance. Some might propose making up the direct subsidy. The funds would not be available the part of the private sector. But should it be in the public interest to make up the funds, I would only stress that the current competitiveness for the markets is such that simply attempting to provide a degree of compensation for higher U.S. flag freight is not likely to be sufficient to make up the disadvantage in compensation against the credit and other effort policies of other exporting nations.

For example, the U.S.-cargo fleet is very small in size. Very often, U.S. merchandisers are forced to accept vessels which are not ideally suited for the shipment of grain, thereby significantly increasing the handling costs, loading costs, and off-loading costs.

So I think that it is important to recognize that it is simply not a matter of saying that we can just follow the practice under Public Law 480 and simply make up the difference in freight costs.

Senator BOREN. Even if direct Government subsidy money were available, it would not handle all the problems.

Mr. SAYLOR. It would not offset the competitive disadvantage that being required to use U.S.-flag carriers would create for the industry. It is an industry that is characterized with very small margins; the ability to make the sale is determined by pennies. In the case of Public Law 480, we are talking about a significant concessional element which can offset part of the disadvantages in being bound to use U.S.-flag vessels. But in the case of the commercially-oriented programs, simply making up the difference would be very unlikely to offset the disadvantage at which we would be placed.

In short, the application of cargo preference to these programs is damaging enough. But extending the cargo preference to blended credit or GSM-102 would have a different and far more damaging and more immediate impact.

Second, the application of U.S.-flag requirements to these credit programs would provide no benefit to the U.S. shipowners or agriculture, because the programs would be no longer used.

As you know, GSM-102 is a short-term credit guarantee program offered by the Government at competitive interest rates. Blended credit offers a combination of loan guarantees and subsidized credits to provide slightly below market rates of interest for selected

countries. Again, in the case of commercial programs, the competitive factor is so narrow that it is unlikely that, should cargo preference be applied to these programs, that the competitive disadvantage can be offset.

Shackling these shipments with U.S.-flag requirements would ensure that the United States would not be price-competitive. For blended credit, cargo preference would increase the landed costs of the U.S. grain by 15 to 20 percent, resulting in increased shipping costs of between $40 million and $70 million for fiscal year 1985. For the $5 billion GSM-102 program, the extension of cargo preference will result in up to $650 million in additional shipping costs.

Finally——

Senator BOREN. In addition, in theory, these steps would increase carryover stocks and Government storage costs, as well, at the other end by several million dollars.

Mr. SAYLOR. Certainly. The marketing season continues, and another crop will be available to market very shortly. And those markets that we sacrifice to other producing countries are not going to be made up, and the commodities displaced will end up in storage, and the costs will be borne by producers and the U.S. taxpayers.

Finally, the National Grain and Feed Association continues to be strongly opposed to all forms of cargo preference. If the Congress decides that a subsidy to the U.S. merchant marine is advisable for whatever reason, be it a matter of public policy, we strongly argue that it should not be disguised as a payment of unknown proportions levied with impunity on the shippers. Other sectors of the economy, most particularly agriculture, should not be asked to bear the unwarranted costs of the subsidies.

We thank you for this opportunity to appear before this committee, and we pledge our full support behind S. 721.

Senator BOREN. Thank you very much.

Mr. Tussey.

STATEMENT OF W. GLENN TUSSEY, ASSOCIATE DIRECTOR, AMERICAN FARM BUREAU FEDERATION

Mr. TUSSEY. Mr. Chairman, I am the associate director of the Washington Office of the Farm Bureau.[1] Prior to my employment by Farm Bureau, I served as a staff economist on this committee, and prior to that, I was Assistant Administrator, Foreign Agriculture Service, with responsibilities for the Public Law 480 Program, and earlier, I was director of the Commodity Credit Export Program.

I mention this only to put into perspective some of the remarks that I will make here. First of all, as Mr. Green pointed out, there are some other groups that feel more strongly about an exemption for agricultural commodities than the coalition that Mr. Green mentioned. I would like to explain some of the reasons why we feel this way, and I would like to go back a bit——

Senator BOREN. You are talking about a total exemption.

Mr. TUSSEY. A total exemption for agricultural commodities is what my organization advocates. I might add, too, that the Export

[1] See p. 45 for the prepared statement of Mr. Tussey.

Commission had as one of its recommendations a total exemption of all agricultural commodities.

For many, many years since the inception of the cargo preference law, it has been applied to Public Law 480. Tom mentioned that that was bad enough, but now it will be applied to blended credit and possibly something else.

Then, the Egyptian flour deal, which was an innovative program to get the attention of the Europeans. That program, which was an export PIK-type program, by virtue of an executive order, had cargo preference applied to it. It increased the cost of that program by $24 to $25 million. We have not had such a program since. That is the last of those programs. Nobody has come up with another program. It just makes the program simply too expensive.

But what has it gained the maritime interest? There has not been another program. But it certainly has hurt the farmers. It has certainly hurt—we got the attention of the Europeans on a one-shot deal, and we have not been able to get their attention since.

I would like to also mention that all through the years, in administering the CCC Export Credit Program, the direct lines of credit, and also in the guaranteed credit, that everybody has been very fearful of application of cargo preference to those programs. When I was there, we missed a lot of good opportunities to offset some of the disadvantages that we were suffering because of subsidized interest rates by other countries because we were afraid to lower the interest rate below the market rate. Those were missed opportunities for the American farmer. So, even if you keep CCC export credit free of cargo preference, as long as you are fearful of it, and you do not have a law exempting agricultural commodities, you are going to be missing export sales. And then, along came the Blended Credit Program, and it has been mentioned here that it is now to apply to the Blended Credit Program, and that is what has prompted some of this collective legislative action now.

Also, there have been efforts on the part of the maritime interests to extend cargo preference to cash, or commercial sales. Congresswoman Boggs and Senator Trible had such bills last year that would have started out gradually, folding into the cargo preference laws a greater and greater percentage of our exports. Unfortunately, that bill in the last Congress did not pass. But these efforts continue, still continue to expand cargo preference to our agricultural commodities.

If the cargo preference requirements were to be applied to our commercial sales, we would really be dead in the water. We would certainly become a residual supplier. We have enough export problems the strong dollar and all of the other things that we have to face, but if we ever had cargo preference requirements applied to our commercial sales, as was proposed as recently as the last Congress, we would be certainly a residual supplier. Anyone buying our product is interested in moving that commodity at the lowest cost to their ports. Why would they come here and not go to Canada if we were going to have such a costly restriction on them?

So we feel in the case of cargo preference that now is a very propitious time to exempt agricultural commodities from cargo preference requirements, including Public Law 480. And as I indicated a

moment ago, that is the way the Export Commission feels also and have so recommended.

I would like to mention briefly, if I have a moment, as to how it works in Public Law 480 presently, under the cargo preference laws. You write a program for a country. They put out a purchase authorization for the grain or the soybean oil or whatever. The tender goes out, and competitive bids are made for that product. So the grain, then, is purchased in the open market at going market rates, and then immediately, in order to transport that grain to the recipient countries, we turn around, and we go into a captive transportation market situation, where CCC paid, on the average last year, $25 per ton in addition. The Government does not ask the maritime people to really get with it as far as a free market. They do not ask them to compete in the world transportation market.

So then each year, on the average, CCC page for Public Law 480 title I shipments, on the average, $25 per ton additional, which amounts to something like $100 million in addition. It came out, as you indicated earlier, Mr. Chairman, of the Commodity Credit Corporation's budget. It is kind of interesting as to how it ever got there to begin with. In some of these meetings we have had around town here, I have mentioned this. I once asked, when I was in the Foreign Agriculture Service, how did we get stuck with this in agriculture. The reply by one of the older lawyers in the general counsel's office who remembered the details of it was this—that when the cargo preference law was enacted, the funds were not made available. So, somebody looked around and asked how do we fund this; and someone suggested, why not make the recipient countries pay for it. Someone with better judgment said that would not be fair—it is our law, and why put this burden on some poor food aid recipient country. Then someone suggested, well, you can do virtually anything under the CCC Charter Act—and most lawyers tell me this, and I think that has been done by various Secretaries from time to time. So it was decided that we would pay for this out of CCC. That is how it came about that there is a hidden subsidy for the maritime interest in the CCC budget, and it has cost millions and millions of dollars down through the years.

Senator BOREN. It has grown, as I gather. I was just looking at that figure. I think back in 1980, the USDA FAS subsidy was something like $63 million. It got all the way up to $97 million in 1982, and I believe you said it has now crossed the $100 million threshold.

Mr. TUSSEY. Yes, about $10 million—and probably another $20 million in extra costs for title II, the donations program.

It is hard for me to explain to our farmers why one part of the Public Law 480 program operates in a free market with competitive bidding, and another part of the program operates differently. I do not think it is fair, also, to the taxpayers of the countries and the supporters of humanitarian assistance around the world to have this imposed on their generosity. They want to support Africa, they want to support the hungry people in the world, but then in order to support them, they are asked to ante up $25 a ton or more, in order to subsidize the maritime interest.

I do not understand, Mr. Chairman, why David Stockman does not see an inconsistency here in all of this. I have heard a lot of

talk about making farmers more market-oriented, but I have not heard a thing from Mr. Stockman about making the maritime industry more market-oriented, and going into a free market and competing in the world transportation market.

I think that he ought to look around him, because there are some big savings that have not even been mentioned yet.

So my organization, and I would say virtually every organization in the coalition here, would like to have what I am asking for, but they felt that things were urgent, and that probably, it is better to get half a loaf than to try for the full loaf. Certainly, the American Soybean Association feels as our organization does, and there are a number of others that feel the same way.

So, while we support the efforts of you and Senator Boschwitz and others, we think that Congressman Bereuter, who has put in a bill exempting all agricultural commodities from cargo preference, we think that—well, I think we support his efforts a little more vigorously, perhaps, than the effort that would just go partway.

Thank you very much.

Senator BOREN. Well, I certainly understand your comments, and I think you know that the coalition and the others that have joined together, not only the coalition of organizations, but a coalition in Congress, have joined together here on the lowest common denominator to push this proposal very quickly, because we could get broader support, and because we could also get the administration to sign off on it. As you know, there is a real question as to whether or not they would sign off—apparently, we have received the signal that they would not sign off at this point in time on an across-the-board action. I do not know why the inconsistency in Mr. Stockman's statements about the competitiveness in the free markets in agriculture and not in other sectors, but I think it bears some explanation, and to make sure that we are operating on impartial economic rationales and not on any political rationales based upon election campaigns or other matters that come along. So I think that is something we ought to press Mr. Stockman about, and find out why he is not being consistent on this point.

I think you also make a good point—and I do not understand, and maybe we will hear a little later, why this lawsuit was brought. It would seem to me it is like waving a red flag at the Congress, and it invites the Congress to open the whole issue of cargo preference now, whereas it was an issue that was at rest, at least as to the status quo, by many people in Congress. I think it is going to add to calls in Congress for a total exemption for agricultural products. There is no doubt about that, that there is a much stronger feeling as a result of this action being taken to court and being brought by this group, which has highlighted their activities and highlighted the fact that the farmer who is broke is subsidizing this sector, the subsidy keeps increasing.

I was not asked for political advice, but if I had been, I would have said it was very shortsighted on their part, because it is now going to invigorate those of us in the Congress to push for broader action than would otherwise have been the case. I am mystified as to why they would have invited this kind of action down upon themselves.

So, I think you make a very good point.

I would ask also, in addition to this action, I presume you would all favor pressing the court appeal as well as action in the Congress; is that correct?

Mr. GREEN. I would like to comment on that, Senator, because the two industries which were most affected by this situation were the milling industry and the wheat export industry. We were asked our opinion of a court appeal by the administration, and our opinion of the legal aspects of that appeal. That is the reason why we are so active and why we are so vehement in working toward this legislative action.

First of all, there is a question of the legality. The judge's decision was very complete. We have had independent counsel tell us that it would not be overturned on appeal, that indeed the Cargo Preference Act as currently written would need to be applied to this Blended Credit Program.

Second, we feel that any attempt to appeal this action, despite the fact that in this case, Carl is losing 3.5 million tons of sales of wheat—not Carl, but the entire wheat industry—and the flour milling industry is losing 30 million dollars' worth of flour sales, a total of about 125,000 tons. We feel that this is a delay tactic; that in essence, it would buy the time to allow Congress to say, "It is in the court system. We do not have to make the tough decision, the very tough decision, of clarifying exactly what is the situation, where is cargo preference going to be applied and where is it not going to be applied." That is the final question about a court appeal—that is, this court appeal would rule only on blended credit. Each time we went out for a new program, each time there was an innovative step to try and expand agricultural exports, we would be back in court with a new decision. The time has come now to clarify the intent of the law and the way it will be applied in the future and forever more.

Senator BOREN. Well, I think you make a very good point. You make a point as to the uncertainty of an appeal. That is not necessarily a certain remedy, even on this point—and then the question of whether you going to be back in court every single time any new application is made, to have longer, more drawn out court action, and the need for Congress to make a policy decision on the matter. I think those are all three very good points, and the points that some of you have already made on the panel, too, that we can no longer assume that once markets are lost, that they can later be automatically regained. It is so much easier to hold a market than it is to regain a market you have lost and then attempt to get it back. We learned that. We learned after the embargo that many of our sales agreements were never reinstituted. Others now have long-term agreements with some of our past markets. We are learning that in other sectors of the economy, where I very much worry about the high value of the dollar. Companies, the caterpillars of this world and others, if they lose those export markets because of high value of the dollar, they cannot go out of business and 10 years later, all of a sudden, come back in business, and start up all over again and retake those markets. We are going to have those American jobs lost forever. So I think it is a very good point, that time is of the essence here.

Mr. TUSSEY. I agree with what Mr. Green just said. It was my understanding—earlier, we asked about the administration appeal, and if I remember correctly, we were told that the administration was not going to appeal it. So, if that is what the administration plans to do now, then that is a change in their strategy.

Senator BOREN. It sounds like we are getting two different comments from two different departments, and I think it is very important—and some of us, you can be sure, will be contacting the White House and asking the President to clarify and to make sure we are here on a coordinated effort, because the Secretary's statement yesterday was very, very strong, and he did not say, "I, as Secretary, support this legislation," but he said the administration supports it. I take that as a good faith statement on his part and one that had been cleared by the White House. So I think maybe we need to have an additional push now from the White House itself on this matter to clarify.

Again, I thank all of you for being here.

Are there any last comments any member of the panel wishes to make after having heard all the other members of the panel?

[No response.]

Senator BOREN. We are moving along with dispatch. Let me again give apologies for Senator Boschwitz. I was just in a meeting with him before we came in here, a meeting with three other members of the committee, and unfortunately, we just had several other matters going on at the same time. I know he still hopes to get here.

Senator Boschwitz himself has been very active in pulling this coalition together, not only this year, but over the past 3 years, or at least 3 years, he has been very active on this subject.

Our next panel is composed of Mr. Frank Drozak, president of the Seafarers International Union, Washington, DC, and Mr. Peter J. Luciano, executive director, Transportation Institute, Washington, DC, who is accompanied by Emanuel Rouvelas, counsel.

I will say we are very glad to have you here and are interested to hear what you have to say. Also, just speaking as one individual, we are certainly not here to be unsympathetic to the problems that the maritime industry is having. We understand what economic problems are, and I guess we are trying to act in a way that will not cause one sector that is in deep economic trouble to have to deal all alone with the problems of another sector that may have its own legitimate problems.

So, I would say to you in the beginning that we will listen to you very sympathetically. We are not unsympathetic to the problems you have in your own sector.

Frank, we would be glad to begin with you, and I will try to withhold my questions until both of you have had a chance to give your comments.

STATEMENT OF FRANK DROZAK, PRESIDENT, SEAFARERS INTERNATIONAL UNION

Mr. DROZAK. Mr. Chairman and members of the committee, my name is Frank Drozak, and I am president of the Seafarers International Union. On behalf of the SIU, representing thousands of

unlicensed seamen aboard U.S.-flag vessels engaged in this Nation's foreign and domestic shipping trades, I appreciate the opportunity to express our strong opposition to proposals now being considered to weaken the longstanding cargo preference policy with regard to U.S. agriculture export trades.

Since the early days of this country, the maritime and agricultural sectors of the United States have been vitally important to our Nation's economy and defense. The maritime industry has been the conduit for U.S. commerce and international trade, and the U.S. merchant marine has provided the sealift capability needed by the military to transport troops and supplies abroad in times of war.

The agriculture industry has consistently produced enough food to adequately feed the United States, as well as a large part of the world. These two important industries interact in the domestic and international transportation of agricultural trade which is governed by a national transportation policy—the Cargo Preference Act of 1954.

Unfortunately, these interdependent industries are experiencing tough times. Regrettably, the agriculture and maritime industries are not sharing in the economic recovery that some of the other sectors of the Nation's economy are experiencing. The U.S. maritime industry is at its lowest point of activity in decades, with over 100 vessels laid up and a proportional loss of seafaring jobs. The agriculture sector is also at a low ebb. This has resulted from a dramatic drop in farm exports over the past 4 years caused by a shift in world agricultural trade patterns.

Compounding the depressed state that both industries are experiencing is a traditional lack of cooperation. This cooperation void, dating back to 1954, when Congress passed and President Eisenhower signed into law both the Food for Peace Act and the Cargo Preference Act, stems from the opposition of the agriculture industry to the use of U.S.-flag vessels in the transportation of agricultural commodities. This lack of cooperation, and the resulting friction between the two industries, is entirely without cause.

The maritime industry remains very supportive of the agricultural community and recognizes the vital need for a healthy agriculture sector in the United States. We support the broad Federal support and subsidy programs that benefit the agricultural community. However, we are becoming increasingly concerned with the constant criticism of maritime programs and policies originating from the agriculture community. This kind of antagonism is ultimately counterproductive for both constituencies.

The fact of the matter is, cargo preference does not add one cent to either the price American farmers receive or the price the overseas customers pay for farm commodities. Any additional cost for using American-owned and crewed ships is paid for by the U.S. Government as part of its investment in a strong national defense. While cargo preference does not cost the farmer, it is of great benefit to the U.S. merchant marine.

The problems facing the American farm community are basically the same as those facing the American maritime industry—weak markets, the high dollar, highly subsidized foreign competition, restrictive foreign trade practices, and nontariff barriers.

However, some in the farm community believe that so-called "free market" policies should apply to U.S. shipping, even if they do not apply to heavily subsidized agriculture. If the agriculture industry is truly interested in applying free market trading practices to the maritime industry, they should see nothing wrong with giant grain brokers going to Argentina to buy their farm commodities.

I mention this example to make a point. Our two industries are in the same boat together. We both face unfair trading practices abroad and indifferent Government leadership at home.

It is inappropriate for the agriculture industry to consistently oppose the maritime industry. U.S. maritime interests have always supported programs benefiting U.S. agriculture. Both industries are vital to this Nation's well-being and security. Sealift and merchant shipping capacity matches food production capability in national importance.

Mr. Chairman, passage of any legislation to water down the Cargo Preference Act will do nothing to help American farmers, but will only penalize our U.S.-flag maritime fleet—a fleet which is now being modernized to bring down rates and lower transportation costs.

Instead of debating the merits of this legislation, we would prefer to work together with agriculture to seek policies that can serve our mutual interests and the larger interest of our Nation in preserving these two vital industries—our fleet and our farms.

In the past couple of weeks, I have met, as have others in the maritime industry, with representatives of the farm community. These meetings have been encouraging, and I believe that together, we can work to revive the health of both of these essential American resources.

I urge the committee to reject S. 721, or any other initiative that weakens the U.S. merchant marine. Every Congress since our Nation's birth has supported a strong merchant marine. The sale of farm products abroad is a national export, not a private export. American shipping should be a part of that export process.

In addition, we would urge that members of this committee take whatever steps may be necessary to get the blended credit cargoes moving. Suspension of the Blended Credit Program benefits no one—not the farmer, not the maritime industry, not this Nation.

Before closing, however, Mr. Chairman, I would like to point out that I am a member of a coalition of interested parties dedicated to a strong maritime industry. This coalition, consisting of virtually the entire deep-sea maritime industry, should be given a fair opportunity to express its view on this legislation.

Mr. Chairman, we believe the issues being addressed today are too important to be resolved without full hearings at which the entire maritime industry has an opportunity to be represented.

We believe this committee would be better served by hearing from a broad cross-section of our industry, and not just from the one association and labor union represented here today.

In addition, these issues are of vital importance to the Senate Commerce Committee. We therefore request that joint hearings before the Agriculture and Commerce Committees be scheduled as soon as possible.

Due to the short notice of this hearing, our statement today is not complete. We request that additional material may be submitted to the committee for the record.

Thank you.

Senator BOREN. Thank you very much.

Mr. Luciano.

STATEMENT OF PETER J. LUCIANO, EXECUTIVE DIRECTOR, TRANSPORTATION INSTITUTE, ACCOMPANIED BY EMANUEL ROUVELAS, COUNSEL

Mr. LUCIANO. Thank you very much, Mr. Chairman.

Mr. Chairman and members of the committee, my name is Peter Luciano. I am executive director of the Transportation Institute.

The institute is a nonprofit research and educational organization, dedicated to the promotion of a strong American merchant marine.

Senator BOSCHWITZ. Excuse me. Did you submit a statement?

Mr. LUCIANO. Yes, sir.

We appreciate the committee's courtesy in extending us the opportunity to testify concerning S. 721, the proposed Agricultural Trade Amendment Act of 1985.

S. 721, if enacted into law, would seriously threaten the U.S. merchant marine, and thus threaten U.S. national security and the economy, without achieving any compensating benefits to American farmers. We therefore oppose its enactment.

S. 721 was introduced in response to the recent U.S. district court decision by Judge Green in the case of *Transportation Institute* v. *Dole*. This decision held that the Department of Agriculture's Blended Credit Program is subject to the Cargo Preference Act of 1954, and that 50 percent of blended credit commodities must therefore be shipped on U.S.-flag vessels.

S. 721 apparently seeks to reverse Judge Green's decision, although it goes far beyond the Blended Credit Program, and would preclude cargo preference application to any USDA program other than the Public Law 480, or Food for Peace, programs.

Even if S. 721 were ultimately enacted, however, it would not happen quickly enough to solve the immediate crisis of the Blended Credit Program. The No. 1 problem is Secretary Block's abrupt suspension of the program following the court decision.

We share the frustration of Members of Congress and members of the agricultural community over the program's suspension. Nothing in the court's decision required USDA to suspend the program, and we never sought its suspension in the litigation.

USDA has never contended that it lacks adequate funds to finance the ocean freight transportation differential associated with U.S.-flag shipment of half the blended credit cargoes. USDA estimates those costs at from $40 million to $50 million for this fiscal year. We believe USDA has those funds available, either through appropriated funds, the borrowing authority of the Commodity Credit Corporation, or possible reprogramming of funds.

USDA's suspension of the program appears to us to be simply a tactic to try to force Congress to scuttle at least part of the long-standing, national defense related Cargo Preference Program.

But this tactic will unnecessarily cost American farmers export markets that they desperately need. We hope that Secretary Block will reconsider his decision, and we urge this committee and each of you to ask Secretary Block to keep these cargoes moving while Congress considers long-term policy on this issue. He should not hold them hostage and lose foreign buyers.

A number of statements in support of S. 721 have implied that the legislation is necessary because the American farmer now somehow pays the costs associated with cargo preference. Nothing could be farther from the truth. Cargo preference does not make 1 cent difference in either the price the American farmer receives for his commodities, or the price the foreign importer pays to purchase those commodities. Any costs of cargo preference are paid by the U.S. Government as part of its investment in a strong national defense.

USDA has traditionally financed the costs of cargo preference on its Public Law 480 programs out of program funds, which are appropriated at levels based, among other things, upon USDA's projections of its transportation costs. Congress has approved the funding levels for these programs with the full knowledge that the funding represents support for two industries, not one, and with the full knowledge that the funding is provided to achieve two major national objectives—encouragement of American farming and of American shipping. In the case of the Blended Credit Program, USDA took the position, now rejected by the court, that cargo preference did not apply. As a result, USDA erroneously failed to take transportation costs into account in formulating that program.

We believe USDA can rectify that mistake and administer the program consistently with cargo preference and the court's decision. The decision does not contemplate that any costs of cargo preference will be paid for by either the American exporter or the foreign importer of U.S. agricultural commodities. Reversing that decision by legislation will therefore do nothing to help farmers be competitive in world export markets.

If the issue of cargo preference has nothing to do with whether the Blended Credit Program continues, or with the ability of American farmers to compete in world export markets, what then is it all about? It comes down to a question of whether we want to invest the funds necessary to secure a strong merchant marine for national defense and commercial trade purposes, or whether we want to become totally dependent upon foreign shipping, and therefore vulnerable to shipping embargoes or to an inadequate seaborne defense capability.

The Cargo Preference Act was passed some 30 years ago, in recognition of the Nation's need for a U.S.-flag fleet capable of serving national defense and commercial trade needs. Cargo preference does entail some cost to the Government, and we do not deny this. The reasons for this are simple, and should be well understood by American agriculture. The agriculture and maritime industries, in fact, face precisely the same problems competing with other nations. Other governments subsidize their maritime and agricultural industries, and impose nontariff barriers to competition from other nations. The overvalued dollar and high interest rates also make it

difficult for both industries to compete abroad. Beyond these factors, it simply costs more to do business in the United States, whatever that business is.

In spite of those problems, I am pleased to state that our industry has made great strides in recent years in reducing costs. USDA data on the average freight rates for Public Law 480 cargoes during the period 1981 through 1983 show a dramatic decline in U.S.-flag rates and in the differentials.

Average U.S. tanker rates went from $102 per ton in 1981 to $51 per ton in 1983, and the differential between the United States and the foreign averages for these ships went from $59 down to $18. Average bulk carrier rates went from $96 down to $61 in the same period, with the differentials between U.S. and foreign declining from $52 to $32. Tankers and dry bulk carriers have accounted for upward of 95 percent of the blended credit shipments.

We feel these figures demonstrate our industry's commitment to cutting costs and becoming increasingly competitive with foreign competition. We have been disappointed that rather than recognizing these significant accomplishments, certain segments of the agricultural community persist in talking of U.S. freight rates three times greater than foreign rates, or of $100 per ton average differentials. Today's facts simply do not bear out those numbers.

We believe that the shipment costs to the Government could be even further reduced through greater efficiency in the Government's management of the transportation function. We understand there have been preliminary discussions about a joint transportation office utilizing existing personnel and funds of the Department of Agriculture, the Maritime Administration, and the Agency for International Development. Such an office could significantly lower transportation costs even further by booking longer term charters, utilizing better competitive bidding processes, and placing the responsibility for choosing the carriers with the U.S. Government, rather than with foreign brokers who receive commissions based on percentages of the freight, and therefore have little incentive to minimize transportation costs.

Our industry stands ready to work closely with the affected agencies to bring greater efficiency and lower costs to the transportation process. We hope that this committee will give those efforts its strong support.

Beyond these considerations, our industry wants very much to work cooperatively with the agricultural community, with which we have so much in common. A maritime industry working group has been formed for this purpose, consisting of representatives of every segment of American shipping. I have personally been meeting with representatives of the farm community for several years, in an attempt to promote this cooperation. We recognize the vital importance of U.S. agriculture to our national defense and economy, and we are prepared to support efforts to ensure that our country never loses sight of that importance, or risks dependence on foreign food supply.

We would ask that the agricultural community recognize that the merchant marine is no less vital to our national security, and that it also requires Government support and assistance if it is to

survive. Bitter fighting between our two industries benefits only those who profit from our large and growing trade deficit.

Before we filed suit over the Blended Credit Program, we sought to engage in dialog with the Department of Agriculture in order to seek a compromise solution. After the suit was filed, but before it was decided, we renewed those efforts.

Since the decision was rendered on February 21, we have tried to interest Secretary Block in meeting with the maritime industry to explore constructive means of accommodating the interests of both the agricultural and maritime communities. I ask your permission that our letter to Secretary Block be entered into the record.

Senator BOREN. Without objection, so ordered.

[The letter to Secretary Block and the Department's response plus additional material furnished by Mr. Luciano follow:]

THE SEAFARERS INTERNATIONAL UNION
OF NORTH AMERICA, AFL-CIO,
Camp Springs, MD, March 6, 1985.

Hon. JOHN R. BLOCK,
Secretary of Agriculture,
Washington, DC.

DEAR SECRETARY BLOCK: You were recently quoted, we hope inaccurately, as saying that as a result of the Federal District court's decision in *Transportation Institute* v. *Dole*, you would suspend the blended credit program and seek to revise the cargo preference laws.

We hope these reports are erroneous because such action would clearly be detrimental to American farmers, the American merchant marine, and the national interest. The only beneficiaries of such a reaction would be foreign agricultural producers, foreign shipping and those who profit from America's serious and growing trade deficit.

During the course of the *Transportation Institute* v. *Dole* litigation, we repeatedly sought (through counsel) to initiate discussion of policies and compromises that could benefit U.S. farmers, U.S. shipping and the national interest. We were rebuffed and no meaningful discussions occurred. We believe your Department made a mistake in not seriously exploring settlement possibilities at that time. It would be unfortunate if the same mistake were to be repeated now. We continue to believe that a rational and joint approach to the issue could benefit all.

First, the problems facing U.S. farmers and U.S. ocean carriers in the international market are really quite similar. Both face highly subsidized foreign competition, restrictive foreign policies, discriminatory practices, and non-tariff barriers.

Second, both industries are essential to this Nation's security and well-being. For that reason, maritime interests have never opposed the various direct and indirect subsidies required to maintain U.S. agriculture or to permit it to compete in international markets. Moreover, both of our organizations have actively and repeatedly supported programs administered by your department, as well as the productivity of the American farmer and the value of the American farm community in general.

Third, there is no inherent reason that American farmers and American shipping should be hostile to each other—certainly not any reason arising from the existing cargo preference laws. None of these laws result in increasing the cost of American farm products to foreign purchasers or diverting those purchasers to alternate suppliers, since the U.S. government pays the transportation differential between U.S. and foreign ships. The delivered price to foreign purchasers, and the amounts they buy are identical whether or not U.S.-flag ships are used.

Fourth, attacks on the cargo preference laws do nothing whatever to solve the problems confronting the American farmer today. Even if, contrary to administration policy and to all sound considerations of national security and industrial policy, the cargo preference laws were repealed, the American farmer would face exactly the same difficulty competing in world agricultural markets characterized by foreign government subsidies. Suspension of the Blended Credit program certainly does nothing to help the American farmer. On the contrary, it eliminates what has been a valuable aid in export promotion, without providing any compensating assistance to U.S. agriculture.

Consequently, any possible hostility by U.S. farm interests against U.S. shipping could only arise from the possible perception by farm interests that they could cap-

ture as additional subsidies the relatively small amount of funds that the government now expends on paying the transportation differential for U.S.-flag ships. Given the relative size of the subsidies accruing to the two industries, and the fact that USDA's own data shows that U.S.-flag transportation differentials have been rapidly decreasing in the last three years as U.S. carriers have modernized and become more competitive, this would be a particularly narrow position for American agriculture to assert. More likely, any hostility results from confusion and misunderstanding, from which no one benefits.

An attack by you on the cargo preference laws would only serve to initiate a senseless struggle between vital American industries—a struggle which neither industry needs nor can afford, given their other pressing problems—and a struggle which is unlikely to be limited to that single subject. It would also be flatly contrary to the President's repeated pledges to maintain and enforce existing cargo preference laws as a major pillar of his maritime policy. Instead, we urge that you recognize, as President Reagan repeatedly has, that the cargo preference laws are as essential to another vital American industry as any of the laws you administer are to American agriculture. Whatever honest disagreement might have existed about the applicability of the law has been resolved by the court's decision in *Transportation Institute* v. *Dole* and it is time to put that disagreement behind us. It is time to begin working together in a spirit of understanding and cooperation, toward policies that can benefit American agriculture, American shipping, and the national interest. The course we are promoting is not unprecedented. In the past, our respective industries have worked together on such issues as the reconstruction of Locks and Dam 26 and port and inland waterway user fees.

In an effort to achieve the above goals, we request a meeting with you, at your earliest convenience, to begin that process.

Sincerely,

FRANK DROZAK,
President.
PETER J. LUCIANO,
Executive Director,
Transportation Institute.

U.S. DEPARTMENT OF AGRICULTURE,
FOREIGN AGRICULTURAL SERVICE,
Washington, DC, March 22, 1985.

Mr. FRANK DROZAK,
President, The Seafarers International Union of North America,
Camp Springs, MD.

DEAR MR. DROZAK: Thank you for your letter concerning the application of cargo preference under the Blended Credit program. We agree with you that a strong U.S. merchant marine is in our national interest and that the Department of Agriculture and the maritime industry must work together. As you know, we have suspended the Blended Credit program pending a review of our program options.

We appreciate your views on this important issue.

Sincerely,

Leo V. Mayer, Associate Administrator.

QUESTIONS AND ANSWERS ABOUT CARGO PREFERENCE AND BLENDED CREDIT

Question. Did the decision in *Transportation ("TI")* v. *Dole* require the Department of Agriculture ("USDA") to suspend the Blended Credit Program?

Answer. No. USDA chose to suspend the Program rather than comply with the court's direction to ship 50% of the commodities on U.S.-flag vessels, as required by statute.

Question. Was USDA forced to suspend the Blended Credit Program because of insufficient funds to finance the costs of compliance with cargo preference?

Answer. No. USDA has never contended that it lacks the necessary funds.

Question. What would it cost to comply with the court's decision?

Answer. USDA estimates $40 to $50 million for fiscal year 1985; the maritime industry believes it may be closer to $30 million. Even the $50 million figure used by USDA would be less than three-tenths of 1 percent of the $18.3 billion that the government plans to spend this year for farm income stabilization.

Question. Did the decision in *TI* v. *Dole* expand the scope of the cargo preference laws?

Answer. No. The court held that the Cargo Preference Act of 1954, as it has existed virtually unchanged for 30 years, applies to the Blended Credit Program. Federal judges do not have the power to enact new law; they merely interpret what Congress has done.

Question. But since the Department of Agriculture wasn't using the U.S. Fleet to carry Blended Credit cargo before the decision, hasn't the scope of the law been expanded?

Answer. The only reason the maritime industry wasn't carrying blended credit cargo was that USDA was violating federal law by refusing to reserve cargoes for U.S. ships. USDA's argument that the court expanded the law is similar to that who cheats on his taxes, then complains when caught and punished, that the scope of the tax laws has somehow been expanded.

Question. Didn't the Justice Department years before this decision give an opinion exempting the Blended Credit Program from the cargo preference laws?

Answer. No. The opinion cited by USDA for this proposition is 42 Op. Att'y Gen. 203, rendered by Attorney General Robert F. Kennedy in 1963. What that opinion decided was that USDA was *required* to comply with cargo preference on a completely different program—Title IV of Public Law 480. The opinion did not address any direct credit or credit guarantee program. And since the Blended Credit Program didn't even exist until 1983, the Kennedy opinion could hardly have exempted it from cargo preference 20 years before the fact?

Question. Why has USDA claimed that the Kennedy opinion justified its refusal to comply with cargo preference in the Blended Credit Program?

Answer. In the Kennedy opinion, the fact that the program being considered was a foreign aid program was discussed. USDA has seized on that part of the opinion and tried to argue that *only* foreign aid programs are covered by the cargo preference laws. However, the language of the Cargo Preference Act is not limited to foreign aid, and the legislative history convinced the court that Congress intended the Act to apply to all exports financed in any way by federal funds.

Question. Hasn't the government consistently interpreted the cargo preference laws to apply only to foreign aid programs?

Answer. No. The Department of Transportation and Maritime Administration have rejected that interpretation. There has been disagreement within the administrative branch on this issue, which has not been resolved by the court decision.

Question. Has USDA always taken a consistent position on what export programs are covered by cargo preference?

Answer. No. USDA did not even testify during Congressional consideration of the Cargo Preference Act. After it was enacted, however, USDA tried to get a ruling exempting Title I of Public Law 480 from the Act. (This title authorized the President to enter into agreements with foreign nations for sales of surplus U.S. commodities for foreign currency.) The Attorney General instead ruled that Title I was subject to cargo preference. USDA then tried unsuccessfully to get legislation exempting the Title I program on the ground that exports under that program constituted "trade, not aid." Again, in 1963, USDA resisted applying cargo preference to the Title IV, P.L. 480 program, but Attorney General Kennedy rejected the USDA position. (Title IV provided for exports of commodities on government credit through the private trade.) USDA now argues that everyone agreed all along that the P.L. 480 programs were covered, because those programs constitute foreign aid. The truth is, however, that the only consistency in USDA's position over the years has been that it has always tried to avoid compliance with the Cargo Preference Act.

Question. Does the decision in *TI* v. *Dole* apply cargo preference requirements to commercial export sales of agricultural commodities?

Answer. No. The decision explicitly recognizes that commercial sales, which constitute the overwhelming majority of agricultural exports, are *not* covered by the Cargo Preference Act. What the Court said was that when the U.S. government participates in an export sale in a way specifically identified in the Act, that sale by definition is not a "commercial sale." USDA has argued that sales under the Blended Credit Program were commercial in nature, despite the fact that:

USDA extended interest-free credit on up to 20 percent of each Blended Credit sale;

USDA's own internal documents conceded that the terms of the Blended Credit Program could not be viewed as commercial in nature;

USDA guaranteed American exporters under the Program against virtually all risks of nonpayment for their commodities;

USDA and State Department officials had extensive involvement in negotiating agreements with foreign governments for the purchase by those governments of Blended Credit commodities;

USDA made a careful effort not to displace what it termed "normal commercial markets" with Blended Credit sales; and

USDA expressly considered the economic need of a prospective importing country before approving that country for Blended Credits.

USDA's legal position was untenable, and the court so recognized.

Question. Does the *TI v. Dole* descision break new ground in requiring USDA to absorb the cost of compliance with cargo preference?

Answer. No. Far from breaking new ground, the decision merely applies to USDA the same rule that has always been applied to agencies, including USDA, that administer programs subject to the Cargo Preference Act. In virtually every case, such agencies finance the cost of compliance. USDA has for years financed such costs in connection with its shipments under the "Food for Peace" programs conducted under P.L. 480. The Department of Energy finances the costs of cargo preference in connection with purchases of oil for the strategic petroleum reserve. Since bidders on government contracts requiring ocean transportation including their costs of shipment in calculating their bid amounts, the procuring agencies in these circumstances effectively finance the costs of cargo preference. The court's decision does no more than require USDA to do what other agencies routinely do.

Question. Do cargo preference requirements reduce farmers' incomes or make it more difficult for American farmers to export their commodities in world markets?

Answer. No. Cargo preference requirements have no effect on farmers' incomes or on the farmer's ability to export, because they do not affect either the price the farmer receives or the price the foreign buyer pays for U.S. agricultural commodities. USDA pays any differential between the prevailing foreign-flag shipping rate and a reasonable U.S.-flag rate. Since neither the U.S. exporter nor the foreign importer pay for that freight differential, the ability to export is not affected.

Question. Would it be appropriate to move the cost of funding cargo preference to another agency, so that the farmers would not subsidize the maritime industry?

Answer. The American farmer does not subsidize the maritime industry through cargo preference; the United States Government, which finances the cost of cargo preference, provides that subsidy. The question of the appropriate agency through which to fund cargo preference is one on which there may be disagreement, but taxpayers as a whole provide the funding for cargo preference regardless of what agency might disburse the funds. Department of Agriculture funds are taxpayers' funds, not farmers' funds.

Question. How much will USDA spend in fiscal year 1985 for cargo preference on the P.L. 480 programs now administered under the Cargo Preference Act?

Answer. About $109 million for the Titles I and II programs, and about $20 million for the Title III program.

Question. How does this compare to the total spending on farm subsidies?

Answer. It constitutes less than eight-tenths of 1 percent of the $18.344 billion the government expects to spend in 1985 on farm income stabilization.

Question. Is it inconsistent for the government to require competitive bidding for commodity sales under the P.L. 480 program, yet automatically require U.S. shipping for the ocean transportation?

Answer. No, it is only inconsistent in subjecting the shipping to more competition than the commodity sales. Foreign agricultural interests are not entitled to bid on any of the commodity sales under P.L. 480. Foreign ships are, however, entitled to compete for half the P.L. 480 cargoes.

Mr. LUCIANO. For reasons we do not understand, we have been rebuffed at every turn. Nevertheless, we continue to believe that a joint cooperative approach to the problem would better serve our separate interests and the national interest than bitter fighting between our two industries, which benefits only third parties.

We believe that the members of this committee, as well as the agricultural community, recognize the importance of a strong merchant marine. We do not suggest that any supporter of S. 721 intends to injure our national shipping capability. A factor in the cargo preference debate, as we all recognize, has traditionally been its cost. We have taken significant steps to lower the cost, and we are prepared to work with agriculture to continue that process.

We are confident that if the members of this committee will support those efforts, we will find that it is possible for our Government to support and promote both the Nation's fleet and its farms.

We ask that this committee not rush forward with legislation that seeks to confer a short-term, but illusory, benefit on American agriculture, and that in fact would only constitute a long-term detriment to American shipping and the larger national interest.

Instead, we ask that you join us in urging Secretary Block to get the blended credit cargoes moving again while Congress debates this issue. This is no time for farmers to be held hostage.

With Mr. Drozak, I would urge that on a matter as important as this, which affects two key sectors of the American economic community, I would urge that joint hearings be held with this committee and with the Commerce Committee, so that the long-term national interests of this country can be arrived at and promoted by all of the interested parties.

Thank you very much.

Senator BOREN. The Chairman has joined us, and I am going to turn it over to him in just a minute. I have just a couple of questions while he is gathering his thoughts together. Senator Boschwitz, I talked about your leadership in this effort before you arrived, which we very much appreciate.

Let me assure you again, going back, that certainly this Senator, and I think most of the other Senators that are involved, and many, many people in the agricultural community as well, are not unsympathetic to the need to have a strong merchant marine. We are also not unsympathetic to the kinds of problems you are facing with subsidies from other governments, the value of the dollar, and the other things that are impacting all of us at this point in time, threatening whole sectors—or, you might say, threatening the entire productive sector of our economy.

But I am wondering about this. If it is the case that you do not want to hurt agriculture—and we are dealing with a situation now where it is not as simple as saying, well, the U.S. Government is going to pay the cost. For one thing, if it means those costs come out of money that the Department has available to it to export our grain, and they export less, that is going to increase the carryover stocks and depress the prices that the farmer receives. The larger the carryover stock, the more depressed the farm price is going to be, so the farmer does pay a price.

Also, the way the Budget Act operates now, this committee, the Agriculture Committee, for example, is given a ceiling against which to operate, and if we are not able to pay for programs—and we are talking about using different export tools that we might utilize through the CCC program and others—if we are not able to use those funds for those purposes, and we have to seek appropriations, it comes out of a limit that is allowed for agriculture under the total budget.

So, my question to both of you would be this. If there exists this community of interest between the two sectors—and I hope we can get that sort of feeling going—why would it not be fairer, if there is legitimate need—and I certainly would not be here to tell you today that I would automatically vote against it; I might as well

vote for it if there is legitimate need for some sort of equalizing subsidy to keep the merchant marine in business, and the U.S. flag vessels afloat—why wouldn't it be fair to carry that as either a line item in the Maritime Administration appropriation or carry it as a line item in the Department of Defense budget?

I think there are a lot of us who feel that it is integrally related to the Department of Defense. Johnny Carson sent me a note the other day. I saw him on television, and he came up with a solution to the farm problem. He said all the farmers ought to bring their pitchforks to Washington and sell them for $25,000 each. He said it would be great, because both sides would think they got a good deal.

So, what would be wrong with your industry seeking the support of the agricultural sector and saying let's put this either under a line item in the DOD budget or the Maritime Administration budget or elsewhere?

Mr. DROZAK. I would like to make a comment on that. First of all, I would like to get Johnny Carson to bring all these ships that are laid up, and park them in front of the Capitol.

Senator BOREN. I believe there are some—they are not necessarily in that sector, but there are some ships being sold.

Mr. DROZAK. That question has been raised several times, Mr. Chairman, during the process of Public Law 480 cargo. It has always been our feeling that when Congress appropriates moneys for the Public Law 480 Program, it then decides the additional amount that might be needed to comply with the 50-percent cargo preference requirement. And so that additional money is then allocated to the agriculture program.

So, I do not see where—and I have said this before—let us take the $538 million that is now on the table. If the cargo allocation was not in there for the 50 percent, it would be less than the $538 million so allocated. So, I do not see—how a shift in funding will translate into greater form exports. Furthermore, it is a Government program, supported by the administration and also by the Congress.

Now, let me just elaborate one more minute. I could not say what the broad segment of maritime industry would do, because we are part of a coalition, and each organization will certainly voice their opinion as to how they feel and react about it. But would the Agriculture Department support the appropriate amount of subsidy money each year, year in and year out, for the differential between the cost of transportation on U.S.-flag vessels versus foreign-flag vessels?

Senator BOSCHWITZ. Are you asking us? If I may respond to his question, I have sat through a number of those deliberations, and I have never heard a distinction made between the amount that is going to go for cartage and the amount that is going to go to the purchase of commodities. While I do not make the same point about each one of your items in your testimony, I think there is no substance whatesoever to your thoughts or your idea which Mr. Luciano stated in his testimony, that we increase cargo preference appropriations in order to accommodate the cost of cartage.

If you looked at the appropriations for Public Law 480, certainly, you would not see that at all. The appropriation in 1983, which I

have before me, is considerably less than it was in 1957, in nominal dollars, without making any impact on inflation. The total percentage of the tonnage is down from 30 percent to 5 or 6 percent, perhaps, of the total tonnage that is sent.

So, the merchant marine has certainly suffered because of a declining Public Law 480 appropriation. Again, I say that never in our deliberations did we segregate out to say so much will have to be spent for cartage.

Mr. ROUVELAS. I wonder if I might clarify that.

Mr. DROZAK. Mr. Chairman, if the allocation of money to the Public Law 480 Program, Blended Credit Program, or whatever, is *x* many dollars, doesn't the committee take into consideration the requirement that 50 percent of that will have to be carried on an American ship, and that additional cost is made part of the appropriation for the agriculture?

Senator BOSCHWITZ. Quite the contrary. We know how much we can get for Public Law 480, and we probably could get exactly the same figure for Public Law 480 even if we did not have cargo preference in it, and you would have more to cart. You should be in the maritime budget, the transportation budget, and not over here in agriculture.

Senator BOREN. I agree with that.

Senator BOSCHWITZ. You would save yourselves a qreat deal of headache and argument, and bills would not be introduced, and acrimony would not result.

Mr. ROUVELAS. If I could address that for just a minute, there has been a lot of discussion about transferring budgeting or those kinds of concerns. Those are all rational issues. Once you have identified what the cost is—the Secretary of Agriculture says it is a $40 to $50 billion cost; we think it is slightly less than that, and we think that the history of the industry, in terms of those rates declined in the last 3 years, show that—but beyond that, you start thinking about if you are going to transfer the budget, are you also going to transfer the management function; are you going to transfer the booking of the cargo; are you going to transfer the employees who are responsible for doing that job?

Senator BOSCHWITZ. Well, let me respond to you by asking, have you ever made an effort to take cargo preference and put it where it should properly be? Then, you would not, perhaps, have these problems with management and bookings, and so forth, that you complain about. If it were with Transportation people, or Maritime people in the Maritime Administration, perhaps it could be more effectively handled, and perhaps the amounts involved would be less.

In the interest of economy, have you ever sought to move this amount into the Maritime budget?

Mr. ROUVELAS. Senator, let me say two things. First of all, it would be unusual to have that done. You have to understand that this law is not an agricultural law. It is a general Government procurement law.

Senator BOSCHWITZ. I did not ask for a lecture about what kind of law it is. I asked you a question, and I asked you to respond to it.

Has your association or your group ever made an effort to take the cost of cargo preference out of the agriculture budget and put it in the maritime budget or the DOD budget?

Mr. ROUVELAS. No, sir.

Senator BOREN. Is it anticipated that it might? Do you have an open mind on doing that?

Mr. ROUVELAS. I guess the question would be whether all of the Government agencies that have this requirement—that includes the Department of Defense, the General Services Administration, all the other Government agencies that transfer cargo—would be interested in having the transportation and booking and management of that cargo and the budgets for the transportation of all their commodities moved to a different agency in order to handle that.

It is fairly clear that you would not want the budget separated from the management of the transportation.

The question in my mind is whether any of those Government agencies would be interested in giving up the control of their transportation.

Senator BOSCHWITZ. Well, Mr. Chairman, if I might interrupt once again, apparently, this gentleman is not in concert with Mr. Luciano, who talked about the management of this, how things could be done better, and how they should be efficient.

It would seem to me if Transportation, which is a separate Department of the Government, could oversee transportation, we might all be better off, including the maritime industry.

While Mr. Luciano—or whoever's testimony it appeared in—wants efficiency, and wants to gather all this in a certain way so that it can be most effectively done, you apparently have the idea that it should be sprinkled so it is less identified, for whatever reason.

But we think it would be better off in the maritime budget.

Senator BOREN. Do you want to make a comment on that?

Mr. LUCIANO. Yes, Mr. Chairman, if I may. My position is not at all inconsistent with Mr. Rouvelas'. It is a question of what is the most efficient management procedure. We could bring in all kinds of different organizational schemes from the private sector that would show that you could go either way. But there would be a substantial body of economic theory that would suggest that it is simpler and more efficient to keep the transportation function within the agency which has commodities to move.

Now, admittedly, there are factors which you might address on the other side. But my position is not at all inconsistent with that of Mr. Rouvelas.

Senator BOREN. Well, I think our argument would be that the broad reasons for keeping the merchant marine strong and for keeping the maritime industry strong really relate across-the-board to all Americans, and not just to farmers. And therefore, it would be more appropriately handled in a way where all Americans help foot the bill on an equal basis.

The other problem is that, fair or unfair, those of us who have the burden of trying to maintain the budget for agricultural functions, believe me, have to fight for every dollar, and there are always confusions as to whether food stamps are really part of the

agricultural budget—you see figures in the media all the time as to what the total spending by the Government on agriculture is, and it gets to be very, very difficult for those of us who are facing this crisis out on the farm to defend those dollars. I would just say that I think you would be better off in terms of fairness of distributing these costs to all Americans who benefit from having a strong merchant marine and a strong domestic American-flag maritime industry to get it in a position where all Americans could bear that cost; you would be politically better off because by the very nature of asking for more from a segment that is so depressed right now, you are setting up a conflict.

I said a while ago that in one of the statements—maybe Mr. Drozak's statement—it made mention about worrying about the impact of this legislation weakening our Nation's longstanding cargo preference policy. Well, I would just point out that it is not very longstanding, this part of the policy. It is only since February of this year. The bill does not do anything that goes back and changes—in fact, we have heard complaints about it—change the ruling the Department of Justice made back in 1963, when it gave an opinion, for example, that these programs were exempt. I would say again, I do not think it upsets at all longstanding policy. The court decision upset a longstanding policy, which some of the groups involved brought that court case, and if anyone has turned up a stump here and raised the red flag, I would say it is the group that initiated a change in the cargo preference policy to broaden it beyond where it was, and to attack as their target a group that is economically in a very crippled state right now.

So I would just say that I do not think you gain as an industry by stirring up problems between two sectors that are economically depressed. I am a person who feels very strongly myself about buying American wherever we can. There has never been an automobile in my family and there will never be one that I will make payments on, for example, that is not American-made. Now I go beyond the brand name to find out where the parts are made myself, in terms of my own purchasing. And if I were trying to ship anything any place, I would try, if I could possibly figure out how to do it on American ships. I believe in keeping our jobs here. I do not have much sympathy for sectors of our economy that are making money franchising the sale of products in this country made elsewhere by people who are not Americans. I do not like an export of jobs policy; I like an export of products policy.

So I am not unsympathetic, but I would urge you to reconsider. Conditions are very different than they were. We heard some of the history of how the Public Law 480 and cargo preference were being woven into the CCC law, and we all realize—we had it with Social Security and other things at time. People looked and asked, oh, where is there a pot of money; we have got some new needed program that we do not want to have to make direct and open appropriation for. Where is there a pot of money we can go after that will not cause much controversy? And at a certain point of history, that might have made sense in terms of the CCC. All I am saying is conditions are very, very different, and I would very sincerely urge the total industry to consider that and maybe rethink.

I can assure you there is going to be legislation on the floor, whether it comes through the process of hearings, committee action, or whether it comes from the process of amendments offered to the next moving target—there is going to be action on the floor. And I would urge you to consider an alternative proposal, to consider very seriously the shifting of where this cost would be.

I appreciate the courtesy of the chairman, Senator Boschwitz, in allowing me to step in for him during this time and again appreciate his leadership. I am going to turn the remainder of the meeting back to the real chairman here, who has now arrived.

Thank you very much.

Senator BOSCHWITZ. Mr. Luciano talked about a joint cooperative approach and his efforts to approach Secretary Block. Perhaps we should ask him, what would you say? What would your joint cooperative approach be, if I were Mr. Block? And in a way, I am, because this is an open hearing. How would you approach him?

Mr. LUCIANO. Well, I would approach it from a very basic premise, Senator, and that is—this ties in with what Mr. Boren referred to a few minutes ago—these are very tough times for agriculture, and they are also very tough times for the U.S. maritime industry. If cargo preference were eliminated tomorrow, the U.S. agricultural community would not be one bit better off. It would face precisely the same difficulties in highly subsidized foreign competition, the overvalued dollar, nontariff trade barriers, high interest rates, and a number of other things like that.

What I would suggest to the Secretary is that our industries have so much in common, and therefore could benefit so much by working together on a common front to handle the competition, which is not internal among us—or, should not be—but is actually competition from the EEC, from other countries who heavily subsidize and defeat U.S. policy. I would suggest to him that we defeat each other by fighting each other when, by working together, with the kind of experiences we both have in the international sector, we could fashion something positive instead of doing the job for the foreign interests.

Senator BOSCHWITZ. You would not in any way—on page 7 you say "to explore constructive means of accommodating the interests of both the agricultural and maritime communities"—this would not mean that you would make any type of accommodation with respect to the requirement of the cargo preference law, or you would not——

Mr. LUCIANO. Senator, there are a lot of things that can be discussed. There are a lot of ways of administering the program. There are a lot of features of the program that could be discussed. But the way to solve this problem, in my opinion, is through just that, through negotiations among all the interested parties, starting from the basic premise that both of these industries are critical to the American economy and to national security.

It is not possible to discuss them in the kind of confrontational environment that unfortunately has been created here.

Senator BOSCHWITZ. Were you at the meeting that I was at? Was Mr. Rouvelas there, Mr. Luciano, at the meeting with Senator Nickles?

Mr. LUCIANO. Yes.

Senator BOSCHWITZ. Who is also one of your principal opponents, so to speak, in this matter. We came and sought you out—or, he sought you out, or you sought him out—and he said come on up and talk to these folks. So now you have an opportunity to talk to Secretary Block. Am I just going to give him this gibberish that you said, and say that you have to do it privately, or are you prepared to say that there is some accommodation possible?

Mr. ROUVELAS. If I can chime in a moment, Senator, we think the real issue is the money, the dollars.

Senator BOSCHWITZ. Of course, that is what the issue is.

Mr. ROUVELAS. Yes, that is the issue, Federal dollars. That being the case, we think that what has happened in the last 3 years is an excellent demonstration of where the rates, the differentials, have fallen from ranges of $52 to $18——

Senator BOSCHWITZ. A lot of that has occurred, as I understand it, because some of the ships under American flags have, during a period of time, built elsewhere. Are you prepared to accept that as an ongoing modus operandi?

Mr. ROUVELAS. I think—well, I am not——

Mr. DROZAK. I had better step in.

Senator BOSCHWITZ. I mean, there was some modernization that occurred in the U.S.-flag fleet because ships that now fly the U.S.-flag were built elsewhere.

Mr. DROZAK. Senator, some of the ships have been foreign built, and that has been one of the reasons why U.S.-flag shipping costs have been lowered. We are prepared to discuss that question, along with other issues which affect a whole body of the maritime industry. But I do not believe that we could sit here and say—and certainly, I am only speaking for myself now—that the industry as a whole, or maritime unions as a whole would just accept foreign building and say we are prepared to have all ships that carry blended credit cargo or bulk cargo or Public Law 480 cargo be either foreign or American built. We had a discussion of this Friday and Saturday in Charlottesville, VA, wherein a number of these issues were raised. And if I may, I would like to raise them here, because I think it may have some bearing on where we may go.

The discussion focused on the cost of building ships in the United States, the question of Alaskan oil exports, the question of being able to compete in the international shipping market, and the key question—the shipbuilding mobility base of this country.

I believe there will be some movement in Congress after the Easter recess to resolve some of these problems, and I would hope that the industry and labor would be in a position to say we can build these ships foreign, so let us go and build them foreign, so long as our national defense remains secure the protection of our national defense, and a minimum shipbuilding mobility base in this country is maintained too.

I think, really, that is what we are looking at, and over the years there have been a lot of problems with high rates for U.S.-flag shipping, but we are doing our best to bring down rates. We have reduced shipping costs, Senator, since the last time I appeared before your committee, which was a couple of years ago, I guess, by some

40 percent. We cannot reduce the true cost of operation any lower and still get qualified people to man those ships out there.

For example, the figure was raised here today of $58,000 for every seaman. Well, I wish that were so. It is $58,000 per billet, and three seamen fill that billet in a period of a year. So the seaman is not making $58,000; the seaman will make probably $17,000 per year, if he is fully employed—and he is not fully employed.

But to just make a last point here, the true cost on the new bulk ship is $6,000 per day for the crew. Now, that is a long way from the $8,000 per day figure of a couple of years ago. But you have got to take into consideration the cost of building these ships. There is where your big problem is. How about the farmer? His big problem, or one of his major problems, like our problem, is the high interest rates versus what your competitor is getting. All of this plays a part. We are looking at it very strongly, and hopefully, something positive will come out of this.

Senator BOSCHWITZ. You know, I must tell you, Mr. Drozak, am I saying that properly?

Mr. DROZAK. Yes, Drozak. I am a good Polish boy.

Senator BOSCHWITZ. I know the feeling. [Laughter.]

But I would feel better about the whole thing if I could say that cargo preference has been in effect for 30, 31, or 32 years, and look at the merchant marine. What a success, what an achievement, that we have not spent billions of dollars on nothing; we have a good deal to show for it.

But I think that is a difficult case to make.

Mr. DROZAK. Well, yes, Senator, it is. And I have to say that the current situation is not just the fault of labor or the fault of management, but a mixture of Government, management, and labor. I believe that what you have seen in the last few years—a movement toward better ships, efficient ships, faster ships, more qualified crews being able to deliver the product—is the future direction that the industry is headed.

But, in reference to your question, I could say the same about the farmers as to the billions of dollars that have been spent on the farmers, and they are in as bad shape as we are.

Senator BOSCHWITZ. Touche.

Mr. DROZAK. I cannot call the kettle black; we both are trying, and we are both on our knees, and we both need help.

But I would like to go back to what was suggested about shifting the funding of cargo preference to one central agency—I think what Peter said to the committee is correct. Certainly, in order to speak for the industry, I would need to go back and talk to the coalition—and they are not here, so I am only speaking as a representative of our organization here—I would repeat the question I asked earlier: Would Agriculture support the allocation of those funds, whatever Department it may be in, to see that we continued to get our fair share of transporting the cargo, if it were to be taken out of Agriculture?

Senator BOSCHWITZ. I do not think I could truthfully answer you yes, Mr. Drozak—and I am supposed to be asking the questions rather than answering them. [Laughter.]

Mr. DROZAK. Senator, at least you are honest, and in allowing us to appear today you gave us a fair shake, and I appreciate that.

Senator BOSCHWITZ. Well, you gave some figures, too, Mr. Luciano, and that, at least, you ought to negotiate with the Department of Agriculture, because their figure is that there is an average difference of $42 per ton. And if the difference is $18, and if the tanker becomes a bulk carrier, then the wheat or whatever it is on there will be $32—is that correct?

You say on page 5 of your testimony, "Average bulk carrier rates went down from $96 to $61, the differential declining from $52 to $32. The average U.S. tanker rate went from $102 to half"—much of these are reflections of demand, I suppose—"the differential went from $59 to $18." Who knows what the differential would be in the event the demand for these ships went up?

But nevertheless, the Department says $42. It would be my suggestion—can you carry wheat at a differential of $18 or $32?

Mr. LUCIANO. Mr. Chairman, the numbers we cite are USDA's own numbers. I believe these are numbers that we have shared before in discussions. They are not our own numbers.

But beyond that, the differentials involved depend on the type of trade, the size of the vessel, the type of commodity, and so forth. But the numbers we cite are taken from the U.S. Department of Agriculture.

Senator BOSCHWITZ. Well, if the difference is $18 a ton, and there are roughly 36 or 37 bushels of wheat per ton, that would be 50 cents per bushel. That is a lot of money. But on the other hand, only half of the cargo has to go, so you are down to 25 cents a bushel. If these figures that you have are really correct—and if they are USDA figures, we never question them, of course—but if they are, I think that you do have some area for possible negotiations, and at least, what they tell us is $42. Now, $42 is already about $1.13 per bushel in wheat, and a little less in corn, which is a little lighter. Soybeans are about the same as wheat in weight. So that is a big difference, and half is still a very big difference.

Now, I am not suggesting that when you deal with a commodity, that 25 cents is not a big difference, but maybe the way to begin the negotiations and to loosen up 500 million dollars' worth is to immediately—and I will ask my staff to deal with you, if you will; I am going to be gone for about a week—to find out what those differences are. And if they are not too intolerable, I do not suggest that I would change my attitude with respect to cargo preference, but I am negotiable, and I would see to it that we do get a hearing with the Secretary—if there is some basis for proceeding, and if these differences are not as great as we think they are.

I do not have any further questions—do you?

Mr. DROZAK. Could I just add one last comment?

Senator Boschwitz, on the basis of the new ships that we are building and will be building in the future, we estimate that within a 7-year period, we will be within a couple of dollars of being able to compete with the foreigners. And the reason is that if the ship is built foreign, with favorable financing, and under favorable depreciation policies, the vessel would be paid off within a reasonable period. So it makes a lot of difference if we look at where we are going to be down the line in a long-range program. What we are

really trying to do is compete in the international market. However, we would never be able to compete one-on-one with them. It is just an impossibility.

So I think those things ought to be taken into consideration—where we may be in the next few years as to being able to move the product.

What bothers me is not only the effect of this legislation on the American merchant marine, but also to this country. One need only look to what happened as a result of the Arab oil embargo in 1973. If we have no American flag ships available to move our commodities, then we could be subject to shipping boycotts for the carriage of our grain, and that would be the farmers' problem, but it could happen. Who knows what could happen in the next several years in this country?

So I think it is vitally important that we have an American merchant marine, not just because of me, but also for national security reasons, and that we be able to carry our commodities.

I want to thank you for giving us the opportunity to come and testify today.

Senator BOSCHWITZ. We are adjourned.

[Whereupon, at 4:05 p.m., the committee adjourned, subject to call of the Chair.]

APPENDIX

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Mr. Chairman, I am pleased that we are holding this hearing on S. 721—legislation relating to cargo preference requirements. I commend Senator Boren for his leadership on this issue, and I welcomed the opportunity to join other members of this Committee in sponsoring the bill.

S. 721 would exempt from cargo preference laws the export activities that the Commodity Credit Corporation carries out under its charter act and the export promotion activities that the Secretary of Agriculture and the CCC may carry out under other laws. The exemption in the bill, however, would not extend to exports under the Agriculture Trade Development and Assistance Act of 1954.

This legislation is necessary to address a serious problem caused by a recent Federal district court decision. The court held that the cargo preference law of the United States apply to the Commodity Credit Corporation's blended credit program. Because of this decision, the Department of Agriculture suspended approval of blended credit programs involving the export of 3.6 million metric tons of grain to Egypt, Iraq, Morocco, and Tunisia.

The blended credit program was developed to promote the expansion of agricultural exports. The Commodity Credit Corporation created the blended credit program by combining the export loan guarnatee program—for loans made by private lenders at commercial interest rates—and the program for district interest free loans.

By combining these programs, the interest rate was effectively lowered by about one-fifth. This resulted in an effective price discount of about 3.5 percent to foreign countries that purchased our agricultural commodities. Such a price discount clearly provides incentives for other nations to buy United States agricultural commodities.

Prior to the court decision, the Department of Agriculture had been abiding by an Attorney General's opinion that held that ocean shipments of commodities financed by the Commodity Credit Corporation under its direct credit, blended credit, or loan guarantee programs were not subject to the 50 percent United States flag vessel rule of the cargo preference laws.

Cargo preference laws are designed to maintain a strong merchant marine fleet and this is in the best interest of our country. I do not believe, however, that shipments of our agricultural commodities and products that were exempted from cargo preference laws prior to the court's decision should be subject to these laws.

The Department of Agriculture's suspension of blended credit programs to Egypt, Iraw, Morocco, and Tunisia is a graphic illustration of the adverse effect that can result if the cargo preference law are applied to these export programs.

S. 271 will reinstate the exemption from the cargo preference laws for the shipment of commodities financed by the Commodity Credit Corporation under its driect credit blended credit, and loan guarantee programs. It is of great importance to the farmers and ranchers of this Nation that we got quickly to reinstate this exemption.

The bill would also extend the exemption to export promotion activities that the Corporation and the Secretary are authorized to carry out under other laws. I am particularly interested in the views of today's witnesses on this issue.

I welcome the witnesses to this hearing and look forward to reviewing their testimony.

STATEMENT OF HON. MITCH MCCONNELL, A U.S. SENATOR FROM KENTUCKY

I commend you for holding hearings on this most important and timely agricultural issue. The recent U.S. District Court ruling has already cost the United States farmers over $1 billion in grain exports. This is intolerable in a time of farm eco-

nomic crisis, and I for one am glad to see that the Secretary has announced his support of the Chairman's legislation.

This is a pretty black and white issue Mr. Chairman. If the maritime unions need a subsidy, then let them get it out the Transportation Department budget or the Defense Department budget, but not on the back of America's farmers. I hope this Congress will act on this legislation speedily, so that we can get back in the business of exporting grain.

Thank you, Mr. Chairman, for giving the opportunity to speak in support of this much needed legislation.

STATEMENT OF HON. DAVID L. BOREN, A U.S. SENATOR FROM OKLAHOMA

Mr. Chairman, I commend you for calling this hearing on S. 721, the Agricultural Trade Amendment Act. I strongly believe we must act swiftly to enact legislation to reverse the court case which expanded the scope of cargo preference requirements. The decision by Judge Green in the *Transportation Institute* case has resulted in the discontinuation of the blended credit program by drastically reducing the resources available for promoting export sales of agricultural commodities.

Yesterday, the Secretary of Agriculture announced the administration's support for this legislation. As the Secretary stated, "since application of cargo preference would result in significant additional Federal cost, we are simply unable to fully utilize our commercial export initiatives if they are subject to cargo preference."

To fully understand the legislation before us today, it is necessary to provide for the committee a little background on this issue. The Cargo Preference Act of 1954 requires that at least 50 percent of cargo shipped under certain government programs be transported on privately owned U.S.-flag vessels, provided that such vessels are available at fair and reasonable rates. For many years, the government has taken the position that the law was applicable to U.S. donation and foreign aid programs which provide concessional terms, but not to export programs which are designed to result in sales on the best terms and conditions available on the world market. USDA has applied cargo preference requirements to Public Law 480 (food for peace) sales and donations, and to donations under Section 416 of the Agricultural act of 1949. Under those programs, the added freight costs of U.S. Flag shipment are paid by the U.S. Government.

In a landmark court decision on February 21, the U.S. District Court in Washington, DC ruled that the Commodity Credit Corporation's "blended credit" program is subject to the Cargo Preference Act of 1954. On February 26, the Agriculture Department announced, pursuant to the Court's Decision, that it was suspending approval of all registrations for blended credit programs for Egypt, Iraq, Morocco and Tunisia, effectively negating some $536 million (3.6 million metric tons) worth of grain exports.

Prior to the ruling, the Department of Agriculture had been abiding by a 1963 Justice Department opinion exempting direct credit, blended credits and credit guarantees from the 50 percent U.S.-flag vessel cargo preference rule. The recent court ruling negates the previous decision with respect to the blended credit program. Additionally, the ruling opens the door for application of cargo preference to the GSM-102 (credit guarantee) program.

The decision by the court was a major expansion of cargo preference and will prove very costly to the United States through reduced farm exports. Additionally, the ruling will negate other innovative export incentive programs under consideration which are needed to meet foreign competition and offset the strength of the U.S. dollar.

Applying cargo preference requirements to blended credit will increase the landed cost of U.S. grain by 15 to 30 percent. This more than offsets the 2 percent interest buydown provided to buyers through blended credit.

There is no question that the application of cargo preference to the blended credit program will substantially reduce the amount of grain exported under this program. The added costs of Public Law 480 shipments as a result of cargo preference have increased year after year, thereby reducing the amount of money available for the shipment of agricultural products.

To fully understand what the impact this decision will have, it is relevant to note the costs of cargo preference over the past few years. In an April 6, 1983, letter from Maritime Administrator Shear, several interesting facts were brought to light. First of all, the USDA/FAS subsidy to the maritime industry was $63 million in 1980, $65.1 million in 1981, and $97.7 million in 1982. The total number of seamen involved in the shipment of agricultural exports amounts to 1,668. If one were to

break down merely the USDA/FAS subsidy, it would amount to over $58,000 per seamen in 1982. The total subsidy to the maritime industry, from all agencies, amounted to $174.4 million in 1982. This breaks down to a per seamen subsidy of over $104,000.

According to the agency for international development (AID), the additional costs of shipping on U.S.-flag vessels under Public Law 480, alone, were $77.6 million in 1983; $97.5 million in 1984, and are estimated to run $118.3 million in 1985.

The ocean freight differential for shipping on U.S.-flag vessels will run anywhere from $30 per ton to $80 per ton. If we look at the minimum amount, only, the $30 per ton added cost translates into 80 cents per bushel of wheat, 76 cents per bushel for feedgrains and 80 cents per bushel for soybeans.

The application of cargo preference requirements to the blended credit program will result in increased costs of approximately $50 million in 1985. If cargo preference is applied to the GSM-102 (credit guarantees) program, an additional $125 million will be needed for additional shipping costs.

Not only will the court decision, if permitted to stand, add to the costs of our export programs, it will likely result in the U.S. having the highest level of year-end wheat stocks in history, over 42 million tons. Year-end Government-owned wheat stocks and already estimated to more than double this year with an annual cost to the Government of $150 to $170 million to store this grain. The cost of storing an additional 3.6 million tons will likely total another $50 to $55 million.

The court decision, in effect, substantially cuts the budget for Agricultural exports by decreasing the amount of funds available for exports and give the budget savings to the maritime industry, if we are able to export any commodities under the blended credit program.

I agree that we need to maintain a vital merchant marine. That is not at issue today and was not really the issue of the court decision. Rather, the issue today is whether the American farmer should primarily bear the burden of subsidizing the merchant marine. If the merchant marine is in need of more subsidies than were already provided for prior to the court decision, let us acknowledge the need to increase funding for the maritime industry and let all Americans pay the cost. It is simply not fair to ask American farmers to pay the cost of what is to benefit the entire nation. Frankly, I don't see how I can tell my Oklahoma farmers that we need to increase the amount of subsidy farmers pay to seamen, who in 1982 were subsidized over $100,000, while at the same time, substantially decreasing farm income.

Net farm income, in constant dollars, is at its lowest since the Great Depression. The subsidy for cargo preference taken out of the USDA/FAS budget, alone, is higher than it has ever been. Once again, it appears that our farmers are being asked to pay when he is least able to afford to pay.

Agricultural exports are already down substantially. Wheat exports have dropped from 1.77 billion bushels in the 1981/82 marketing year to 1.43 billion bushels in the 1983/84 marketing year. Agricultural exports as a whole have gone from $43.8 billion dollars in 1980/81 to $38 billion in 1983/84 and it is estimated this will decline to $35.5 billion for the present marketing year. The volume of agricultural exports has also declined. In 1980/81, we exported 126.3 million tons; in 1983/84, we exported only 143.6 million tons.

Mr. Chairman, we are facing a crisis in agriculture. It is estimated that we will lose 13 percent of our farmers in Oklahoma this year due to lack of adequate income. How can I defend a policy that wants to take even more income away from the remaining farmers? I cannot. We must act quickly to reverse the court decision. The legislation we have introduced will allow us to do so.

Our legislation will make certain that cargo preference requirements do not apply to export activities of the Commodity Credit Corporation and the Department of Agriculture, except for those related to its traditional food assistance programs. While I expect the recent court decision to be appealed and subsequently reversed. I do not believe we can wait for the court to act. Each day the blended credit program is not in operation, we are losing valuable export sales.

I, personally, believe we need to go further than merely reversing the court decision. I would support legislation which removed all costs of cargo preference from the Department of Agriculture budget. As I have said before, if we want to subsidize the merchant marine industry, let's provide for it in the maritime administration budget and no where else. The American people have a right to know for what they are paying. As it stands now, over $100 million of funding appears to be supporting the export of agricultural products when in reality it is going to the merchant marine industry.

The bill before us today, S. 721, does not take anything away from the merchant marine industry that it had prior to the court decision.

S. 721 will preserve the cargo preference requirements for the kind of transactions that historically have been subject to cargo preference—namely, exports under the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480).

Under our legislation, the CCC and USDA could continue those programs that make exports of U.S. agricultural commodities competitive in world markets with sales of other countries without having to fund the extra expense attendant to cargo preference. These include, among others, the CCC export sales program (GSM-5), the CCC export credit guarantee program, and the blended credit program which combines credit under the GSM-5 program with government guaranteed private credit under the GSM-102 program. It also includes export subsidy programs (whether the subsidies are paid in cash or in kind) addressed to the same objective, programs under which stocks of agricultural commodities are made available to U.S. exporters, users or foreign purchasers at world prices, and any other innovative program to expand agricultural exports.

Mr. Chairman, this legislation is both timely, essential and cost-effective. We cannot stand by and watch our agricultural exports decline further. We cannot allow a further erosion of our markets due to the strength of the dollar and cargo preference requirements. We simply must act swiftly to reverse the court decision and put the blended credit program back in operation.

Again, I commend you for calling this hearing. It is my hope that the committee will immediately schedule a mark-up on this legislation.

STATEMENT OF PAUL GREEN, CHAIRMAN, AD HOC COMMITTEE OF AGRICULTURAL ORGANIZATIONS INVOLVED IN CARGO PREFERENCE

Mr. Chairman, it is a pleasure to appear before the Committee today to discuss a serious impediment to the United States' ability to export agriculture commodities, that is, the expansion of cargo preference requirements into the export promotion programs of the U.S. Department of Agriculture. The enclosed list of over 90 agriculture-related organizations and corporations are in support of a legislative clarification and limit on cargo preference involvement in agriculture programs. I am the chairman of an ad hoc group of these organizations which are vitally involved in the outcome of this legislative process.

It should first be pointed out that this issue was brought to a head by the U.S. District Court ruling which expanded the application of cargo preference to a competitive program managed by USDA called "blended credit" which was in operation for the last two years and which was used to combat the unfair export subsidy programs of our competitors. We want to emphasize that blended credit was a direct loan/loan guarantee program whose only cost to the U.S. Treasury was the interest foregone on the 1/5 of the value of the commodity which was covered by a zero interest direct loan under the GMS 5 program. Contrary to what you may be told, the application of cargo preference to this program, if it had been continued, would likely cost more than the entire program's cost in lost interest. Indeed, to have used the USDA's resources in such a manner would have been counterproductive to the intent of the blended credit program and would have reduced the effectiveness of the effort dramatically. It was for that reason the blended credit program was suspended by USDA immediately following the court decision.

The result from cancellation of the blended credit program has been the loss of 3.5 million tons of wheat and flour exports in a year when agriculture is reeling from competitiveness problems you are already aware of. The impact of the loss of those 3.5 million tons is not felt only in the agriculture and agribusiness community. The court's decision destroyed jobs in milling, railroads, barge operations, ports and longshoring while not creating a single job or cargo for the U.S. fleet or the maritime union. The term "fifty percent of nothing is nothing" should not only be the feeling of agriculture, but also of the labor interests in the U.S. who are not subsidized and who should not be penalized by the actions of the maritime interests.

Of even greater interest to the Committee and the country than the loss of blended credit, however, is the threat from the judge's decision that cargo preference would be applied to GSM 102 (the loan guarantee program) and any other export promotion programs. It is well known by this committee that GSM 102 has been the most effective tool we have had to maintain competitiveness in world agriculture markets. You are also aware that since it is a loan guarantee, there is no budget outlay unless the recipient country forfeits on the commercial loan.

Nearly $5 billion in 102 guarantees are authorized for this year and the application of cargo preference to those sales would require a supplemental appropriation for the maritime subsidy of 3-4 hundred million dollars. Since such an appropriation is unlikely, cargo preference would spell the end of GSM 102 as well. This committee should not be complacent about the threat to GSM 102 since the lawyers for the Transportation Institute have requested USDA files on GSM 102 under the Freedom of Information Act, the first step in the litigation process. There are no other programs available at the present time to the agriculture industry, which will be helpless against the strength of the dollar and competitor subsidies if this program is also placed under the Act.

Mr. Chairman, agriculture exports are in desperate need of new innovative methods of enhancement as indicated by the USDA figures for this crop year which have been revised downward with each new report. In fact, the ag farm bill introduced by members of this committee has addresed the issue of competitiveness in world markets by proposing new programs for export promotion. To saddle these new programs with the extreme expense of the U.S. flag freight differential will likely kill them before they have a chance to be implemented.

In summary, the loss of blended credit and GSM 102 will leave the U.S. agriculture industry defenseless against dramatic market losses due to the strength of the dollar, unfair trade practices by competitors and domestic prices which have not adjusted to world market factors. The U.S. will be signalling retreat from world markets at exactly the time we should be charging those markets with new, aggressive programs.

We also wish to address the issue of support for the U.S. maritime industry. The level of support for the maritime industry conveyed by the government is not the crux of this discussion or legislation. Rather it is the method by which that support is gained and at whose expense, that is of interest to agriculture. Coming on top of the $110 million PL 480 cargo preference expenditures which are hidden in the 1985 Title I allocation of the agriculture budget and the billions in other subsidies to the U.S. maritime industry, agriculture does not feel it is in the nation's best interest to further impede competitive agiculture export programs with additional subsidy burdens for the maritimers. This is especialy true when the costs of those subsidies would again be hidden in agriculture budgets and appropriations.

If the maritime industry in the U.S. is important to our national security, there are several much more logical methods than cargo preference for supporting a modern fleet and trained personnel. Agiculture would encourage investigation of the possibility of bringing cargo preference under the appropriations process and establishing just what level of support is justified by that national interest.

We cannot stress too strongly that the legislation currently being considered and supported by virtually the entire agriculture community would not take any cargo away from the U.S. maritime industry. It is merely a clarification of the application of cargo preference and returns the situation to the status prior to the court ruling: Namely, that food aid and assistance programs which have allocations to cover the costs of U.S. vessels under PL 480 remain under cargo preference as they have for 31 years, but competitive programs would be exempt from these regulations. To do otherwise will threaten the very existence of those programs. In our opinion, this is not optional legislation if the U.S. is to remain a viable competitor in world agriculture markets.

Mr. Chairman, recent events in agricutlure legislation have shown the tenuous state of our agriculture industry. Therefore, Congress should welcome the chance to benefit agriculture's competitiveness without cost to taxpayers while not adversely affecting the subsidies or cargo currently given to the U.S. merchant marine industry.

We encourage the Senate and House to take this opportunity to lift this impediment from our commercial export programs in agriculture so we might be as innovative as possible in restoring competitiveness to U.S. agriculture in world markets.

STATEMENT OF THOMAS R. SAYLOR, MEMBER, INTERNATIONAL TRADE COMMITTEE, THE NATIONAL GRAIN AND FEED ASSOCIATION, AND VICE PRESIDENT, GARNAC GRAIN CO.

My name is Thomas R. Saylor. I am Vice President for Garnac Grain Company, Inc. of Kansas City, Missouri. As a member of the International Trade Committee of the National Grain and Feed Association, I am here today to provide this testimony on behalf of the Association.

The National Grain and Feed Association (NGFA) is a voluntary association of grain and feed firms ranging in size from the smallest country elevator to the larg-

est grain and feed complex. Included in its membership are country and terminal elevators, merchandisers, processors and exporters covering the wide spectrum of the grain and feed industry. The Association's membership is comprised of 1,300 companies and 44 affiliated state and regional grain and feed associations that include more than 10,000 grain and feed companies nationwide.

The National Grain and Feed Association strongly supports legislation (S. 721) that would amend the Commodity Credit Corporation Charter Act to prevent what we believe would be an unintended and debilitating expansion of cargo preference to commercially related government export credit programs.

We believe the immediate action of Congress is needed for two reasons. The first, of course, is to reverse the February 21, 1985 decision by the U.S. district court for the Distict of Columbia that found that cargo preference applies to the U.S. Department of Agriculture's blended credit program. The court also concluded that the GSM-102 portion of the blended credit program "falls within the literal meaning of the Cargo Preference Act."

But there is a second, and in the long-term, more important reason that we believe legislation is needed now. And that is to prevent the possible extension of cargo preference requirements to America's single most used export credit tool—the GSM-102 export credit loan guarantee program.

The urgency with which we view the current situation is illustrated by the fact that the United States has suspended indefinitely previously approved registrations covering 3.6 million metric tons of blended credit cargo (worth $536 million) for Egypt, Iraq, Morocco and Tunisia. Several of these blended-credit-recipient nations already have begun soliciting offers to fulfill their wheat import needs from competing nations. Meanwhile, USDA has slapped a moratorium on consideration of additional blended credit packages.

Mr. Chairman, let there be no question—the application of cargo preference would bring to an end USDA's blended export credit program and any other competitive, commercially related export credit program. It would, therefore, remove one of the few principal tools that the U.S. has at its disposal to maintain competitiveness in world markets.

Cargo preference is totally incompatible with these export credit programs. The costs of cargo preference would alter dramatically the intent of these low-cost credit programs and would far outweigh any of their advantages to exporters or to foreign buyers.

Let me quantify some of the costs of cargo preference on USDA's export programs. As it is applied to current food aid shipments under the P.L. 480 program, the additional costs of shipping by U.S. flag vessels can approach the total value of the commodity being shipped. USDA estimates that in fiscal 1985 it will spend nearly $120 million because of the cargo preference requirement on P.L. 480 shipments. These costs are taken directly from the funds appropriated for P.L. 480, further diminishing the funds available for actual food aid.

Another example is the ongoing African famine relief program. In this aid program, typically the costs of freight charged on CCC-owned grain shipments transported by foreign flag vessels amounts to $30 per metric ton. By comparison, freight charged for transporting these shipments on U.S. flag vessels is approximately $130 per metric ton.

The result is that of the $90 million that was intended to go toward feeding Africa's hungry, more than $10 million will go instead to subsidize the U.S. merchant marine.

In short, the application of cargo preference to these food aid programs is damaging enough. But extending cargo preference to blended credit or the GSM-102 program would have a different, more damaging, and more immediate impact.

Application of the U.S. flag requirement to these credit programs would provide no benefits to U.S. ship owners or agriculture because the programs no longer would be used. As you know, GSM-102 is a short-term credit guarantee offered by the government at competitive interest rates. Blended credit offers a combination of loan guarantees and subsidized credit to provide slightly below market rates of interest for selected countries.

In both cases, these credit programs are designed to result in sales based upon the best terms and conditions available in the world market. Neither of these programs will be used unless the United States is competitive in terms of price on the grains being exported.

Shackling these shipments with a U.S.-flag requirement would ensure that the United States would never be price competitive on blended credit or GSM-102. For blended credit, cargo preference would increase landed cost of the U.S. grain by 15 to 30 percent, resulting in increased shipping costs of between $40 million and $70

million in fiscal 1985. For the $5 million GSM-102 export credit guarantee program, the extension of cargo preference would result in up to $650 million in additional shipping costs.

Obviously, these costs could not be borne by the credit-seeking recipient nations. Nor could they be transferred to producers or to the grain handling system, whose margins are at extremely low levels. The result would be a substantial reduction in, or an outright halt to, grain exported under this program.

It is difficult to believe that the Congress when adopting the 1954 amendments to the Cargo Preference Act intended to have this requirement applied in such a way as to destroy the usefulness of the export credit programs.

Such a development would further damage the current precarious state of our agricultural exports and would result in a further deterioration of markets for U.S. producers. Clearly, in this environment, any precipitous action to tamper with the federal government's export credit guarantee programs by drastically increasing their costs through cargo preference would be both ill-timed and ill-advised.

The National Grain and Feed Association has been, and continues to be, strongly opposed to all forms of cargo preference. If the Congress decides that a subsidy of the U.S. merchant marine is advisable for whatever reason, we believe that such a subsidy payment should be made directly. It should not be disguised as a payment of unknown proportions levied with impunity on the shipping community. Other sectors of the economy, most particularly agriculture, should not be asked to bear the unwarranted costs of such a subsidy.

It is for these reasons that we strongly endorse S. 721 as a means of curtailing the unwarranted and unjustified expansion of cargo preference on agricultural export credit shipments. Further, we pledge to continue our efforts to eliminate once and for all the inequitable burden of cargo preference from all government agricultural export programs.

STATEMENT OF W. GLENN TUSSEY, ASSOCIATE DIRECTOR, WASHINGTON OFFICE, AMERICAN FARM BUREAU FEDERATION

The American Farm Bureau Federation is the nation's largest general farm organization with a membership exceeding three million member families in 48 states and Puerto Rico. We appreciate the opportunity to appear before the Senate Agriculture Committee to outline our position regarding cargo preference laws as they relate to agricultural exports.

Under the provisions of the U.S. cargo preference law, 50 percent of government generated cargo, such as Food for Peace shipments, must be transported on American flag vessels. Almost invariably the rates on American flag vessels are higher than the going market rate for ocean transportation. Thus, through this captive transportation market, U.S. flag vessels receive a subsidy, which in the case of shipments under PL 480, title I, is called the ocean freight differential.

In 1954 when the cargo preference law was passed, no funding was provided for in that legislation. Since the CCC Charter Act has broad authorities, a decision was made in the U.S. Government to finance a subsidy for the maritime interests with Commodity Credit Corporation (CCC) funds. This is how it came about that a hidden subsidy for the maritime industry can be found in the budget of the CCC.

At the time of the passage of the cargo preference law and the setting up of this subsidy arrangement, it was not envisioned that the ocean freight differential (subsidy) on shipments of government generated cargo under the Food for Peace Program would amount to so much money. Last year, the cost of the ocean freight differential; that is, the cost of the American flag rate above the going market rate amounted to about $25 per ton on PL 480, title I shipments of food to developing countries or a total of over $100 million. This was paid with CCC funds.

Last year there was an effort made in Congress to extend the requirements of the cargo preference law to commercial sales of American agricultural products. If this effort had been successful, agricultural exports from the United States would have become more costly and as Farm Bureau argued in hearings, the United States would have definitely become a residual supplier of American agricultural products. Farm Bureau and other groups joined in defeating the effort to extend cargo preference to commercial sales in the last Congress.

Cargo preference interests, however, have been successful in the courts and recently received a ruling to extend cargo preference requirements to shipments of American farm products under the Blended Export Credit Program. Prior to that ruling, cargo preference law requirements were never applied to shipments under the CCC Export Credit Programs.

Farm Bureau believes that now is the time to seek a legislative remedy to sever cargo preference requirements from agricultural exports.

Robert Delano, President of the American Farm Bureau Federation, in his statement before the Senate Agriculture Committee on March 7, 1985, said, "The Blended Credit Program, which unfortunately has been saddled with the requirements of the cargo preference law, needs to be made a part of new farm legislation with an exemption from cargo preference. As a matter of fact, all agricultural exports should be exempted from cargo preference requirements whether commercial or government assisted. There are other ways of financing a strong merchant marine without harming agricultural exports. We should not reduce our farm exports in our efforts to have a stronger American flag fleet. Farm Bureau will strongly support legislation to exempt exports of agricultural commodities and products from the cargo preference law."

Farm Bureau is not only seeking an exemption for agricultural commodities in new farm legislation but will support freestanding legislation to eliminate cargo preference requirements from agricultural exports.

Mr. Chairman, the Commission on Agricultural Trade and Export Policy has included among its recommendation of action needed to address the current and future export situation the following recommendation on cargo preference: "The Commission recommends that Congress immediately enact legislation to exempt all agricultural exports from existing cargo preference requirements."

A number of bills have been introduced in the Congress which would exempt some or all of government generated cargoes. While we support such legislation, Farm Bureau believes, as does the Commission on Agricultural Trade and Export Policy, that now is the time to seek an all-out exemption of agricultural commodities from requirements of the cargo preference law and as President Delano indicated in his testimony, we are working toward that end at this time.

Congressman Bereuter, who is a member of the Commission on Agricultural Trade and Export Policy, has introduced H.R. 1760, which amends section 5 of the CCC Charter Act as follows: "Export activities of the Corporation under this Act, and activities of the Corporation or the Department of Agriculture to promote the export of agricultural commodities under any other Act, shall not be subject to cargo preference requirements."

Farm Bureau strongly supports H.R. 1760.

[The following information was submitted by Peter Luciano, Transportation Institute:]

CARGO PREFERENCE LAWS DON'T HURT U.S. FARM EXPORTS

WASHINGTON.—The U.S. maritime industry urged Congress today not to be steamrollered by false charges that cargo preference law are harming the nation's farm exports.

"Laws designed to maintain a strong U.S. merchant marine fleet do not add one cent to either the price American farmers receive or the price their overseas customers pay for farm commodities," a maritime industry group stated.

"Any additional cost of transportation is paid by the U.S. government as part of its investment in a strong national defense. To say that cargo preference requirements are hurting U.S. farmers is flatly wrong."

Several bills to change the cargo preference laws have been introduced in the wake of a U.S. District Court decision last month affirming that cargo preference must be applied to farm commodity exports made under the so-called blended credit export assistance program.

Accordingly, 50 percent of "blended credit" commodity cargoes must be carried on U.S.-flag ships. The Department of Agriculture had earlier refused to apply cargo preference to this program, although it has applied it for years to the much larger Food for Peace shipments.

The industry group said: "Passage of any legislation to water down the Cargo Preference Act will do nothing to help American farmers, and will only penalize our U.S.-flag maritime fleet—a fleet which is now being modernized to bring down rates and lower transportation costs.

"U.S. maritime interests have always supported programs benefiting U.S. agriculture. We think we have common interests as we each compete against highly subsidized foreign competition, restrictive foreign policies, discriminatory practices, and non-tariff barriers."

The group also said: "It is unrealistic in today's budget crisis for farm groups to expect that reduction in cargo preference would mean that federal dollars spent on that program would become available for addition to the much larger existing farm subsidy programs.

"We would prefer to work together with agriculture to seek ways to accommodate our separate and our common objectives, ways that can serve our mutual interests and the larger interest of our nation in preserving these two vital industries—our fleet and our farms. We believe this is possible. We urge Members of Congress to work toward this constructive goal rather than to rush ahead with ill-considered legislation that won't help farmers and will hurt the maritime industry."

Members of the group issuing the statement are: American Automar, Inc.; American Institute of Merchant Shipping; American Maritime Officers Service; American President Lines; Apex Marine Corp.; Bay Tankers, Inc; Council of American-Flag Ship Operators; Cove Shipping, Inc.; Crowley Maritime Corp.; Falcon Carriers, Inc.; Farrell Lines, Inc.; Hudson Waterways, Corp.; International Organization of Masters, Mates & Pilots; Joint Maritime Congress; Labor-Management Maritime Committee; Lykes Brothers Steamship Co., Inc.; Marine Transport Lines; Maritime Institute for Research and Industrial Development; Maritime Trades Dept., AFL-CIO; Metal Trades Dept., AFL-CIO; National Marine Engineers' Beneficial Association; National Maritime Union of America; Ocean Carriers; OMI Corp.; Overseas Shipholding Group, Inc.; Pacific-Gulf Marine, Inc.; Prudential Lines, Inc.; Seafarers International Union of North America; Sea-Land Corp.; Seatrain Lines, Inc.; Shipbuilders Council of America; Titan Navigation; Inc.; Transportation Institute; United States Lines, Inc.; Victory Carriers, Inc.; and Waterman Steamship Corp.

Hon. JESSE A. HELMS,
Chairman, Senate Agricultural, Nutrition, and Forestry Committee, Senate Russell Office Building, Washington, DC.

Maritime industry urgently requests opportunity to present its case for application of cargo preference law to blended credit export program as the law now requires. This issue is of vital importance to numerous companies and thousands of workers. Only one member of our 36-member group was even informally invited on one-day notice to Thursday hearing at Senate Agriculture Committee. This was insufficient time to prepare complete materials on this crucial issue. Please schedule joint hearing of Agriculture and Commerce Committees as soon as possible. We join Department of Transportation in opposition to S. 721, and urge that Secretary Block be directed to release blended credit cargoes presently being held hostage.

For further information contact: Bruce Carlton, Joint Maritime Congress; Peter Luciano, Transportation Institute.

[Reprint from Washington Post, April 4, 1985]

OFFICIALS AT ODDS ON CARGO LAW

Agriculture Secretary John R. Block said yesterday the administration will support a move in Congress to change a law that requires half of the farm commodities shipped under government programs to be transported in costlier U.S. flagships.

However, Transportation Secretary Elizabeth Hanford Dole issued a statement shortly afterward disputing Block. "The president's support for existing cargo-preference laws was reaffirmed" at a White House meeting Friday, she said.

Several bills have prepared to counter a federal judge's decision that shipments financed under USDA's "blended credit" program are subject to provisions of the 1954 Cargo Preference Act.

As a result, USDA was forced to suspend $536 million worth of credit designated to help Egypt, Iraq, Morocco and Tunisia buy U.S. grain and other commodities.

The ruling caused a furor among farm groups and some members of Congress. Block said it would add $40 million to $50 million to the costs of supplying the $536 million worth of commodities.

NATIONAL GRANGE,
Washington, DC, April 10, 1985.

Senator RUDY BOSCHWITZ,
Chairman, Foreign Agricultural Policy Subcommittee,
Agriculture, Nutrition, and Forestry Committee, Washington, DC.

DEAR MR. CHAIRMAN: The National Grange, a general farm organization representing 400,000 members in 41 states, has a historic position in opposition to the Cargo Preference Act, which requires half of all "government-impelled" shipments to be made on U.S.-flag vessels.

American farmers have never totally accepted the cargo preference requirements on shipments made under PL-480, Agricultural Trade Development and Assistance Act of 1954. On several occasions, attempts have been made to limit the cargo preference requirements to shipments of agricultural commodities that are donated by the U.S. government to foreign countries, but each time, it was necessary to drop the amendment to assure extension of the P.L.-480 program.

When agricultural exports were not as important to total farm net income as they are today and exports were increasing rapidly because of increased world demand, farmers tended to overlook the added cost of the cargo preference requirement. Recently agricultural exports have accounted for approximately 25% of total net farm income and the competition for export markets is highly competitive. Under these conditions, agricultural export interests have become highly critical of the cargo preference requirement. U.S. farmers and other export interests argue that the higher freight rate of U.S.-flag ships price U.S. farm products out of the world market, which reduces the funds that are available for the purchase of farm commodities. As a result, U.S. farmers are losing export sales and potential income.

The threat of export sales was further increased when U.S. District Court Judge June Green ruled, in February, that agricultural exports made under U.S.D.A.'s "blended credit" program are subject to the 1954 Cargo Preference Act. This major expansion of cargo preference would undermine the effectiveness of the export credit program and lead to a further deterioration of the already troubled U.S. agricultural export situation.

Following the court ruling, U.S.D.A. officials suspended registrations for pending "blended credit" shipments involving 3.5 million metric tons of U.S. grain valued at $536 million. The application of cargo preference, they said, would raise the federal program cost by $50-$70 million and would add 15-30% to the landed cost of U.S. grain abroad.

The Judge's ruling on the "blended credit" program may be only the tip of the iceberg because the federal court ruling suggests cargo preference also might be applied to U.S.D.A.'s GSM-102 credit-guarantee program. Preference requirements could add $125 million in shipping costs to that program, U.S.D.A. officials estimated, and would severely impair their ability to use the program as a means of promoting U.S. farm exports and to meet foreign competition in international markets, particularly in the face of the price disadvantages created by a strong U.S. dollar.

The legal officials at U.S.D.A. have made the decision not to appeal the judge's ruling, leaving U.S. farmers and other agricultural export interests no choice but to seek legislative relief from cargo preference being applied to commercial credit programs administered through the Commodity Credit Corporation of U.S.D.A.

The National Grange joins other general farm and commodity organizations in the Support of S-721, which was introduced by you, Mr. Chairman, and was co-sponsored by Sen. Boren and many other farm state Senators. We appreciate your leadership and strong support in opposition to cargo preference requirements on agricultural export credit programs. We also are pleased, Mr. Chairman, that Secretary of Agriculture John R. Block has announced the Administration's support of legislation to exempt from cargo preference requirements, U.S. agricultral export credit programs, except those shipped under the Agricultural Trade Development and Assistance Act of 1954 (PL-480).

The National Grange supports a strong merchant marine fleet as a matter of national security and increased marine commerce. However, these objectives are in the public interest and should be addressed as public policy. They should not be financed by farmers through lost sales in a highly competitive world market.

Mr. Chairman, U.S. farmers need early action on S-721 if they are to retain millions of dollars of export sales under U.S.D.A.'s commercial credit programs. We urge expediency on enactment of S-721.

We appreciate this opportunity to present the views of the Grange on cargo preference and look forward to the time when the cost of subsidizing the U.S.-flag ships

can be lifted from the backs of U.S. farmers. We would like to request that this letter be made a part of the hearing record. Thank you.

Sincerely,

EDWARD ANDERSEN, *Master.*

STATEMENT OF THE NATIONAL GRAIN TRADE COUNCIL

The National Grain Trade Council wishes to take this opportunity to record its views in strong support of S. 721, a bill providing that export activities of the Commodity Credit Corporation shall not be subject to cargo preference requirements, except with respect to exports under Public Law 480, the "Food for Peace" program.

The Council is a national trade association whose policy-making members include grain exchanges, boards of trade, and national grain marketing organizations.

This legislation, S. 721, addresses an immediate and critical problem facing U.S. agriculture—a court ruling that cargo preference requirements be applied to USDA's blended credit program.

The court decision has effectively halted the blended credit program and threatens to end the GSM-102 guaranteed loan program. *The loss of these programs could result in the loss of over one billion dollars in U.S. wheat export sales.*

The National Grain Trade Council urges Congress to take swift action to remedy the situation caused by, and clarify the application of, cargo preference. Enactment of S. 721 will not take anything away from the maritime industry. The bill would only limit further expansion of cargo preference, restoring the status quo prior to the court decision.

Cargo preference laws enacted in 1954 require that 50 percent of government-generated cargoes be transported on U.S.-flag vessels. In the past, cargo preference has been applied to USDA's "Food for Peace" program, a concessional program providing food to needy foreign nations. Cargo preference has not been applied to USDA's commercial, competitive programs, such as the GSM-102 guaranteed loan program and the blended credit program.

A U.S. District Court ruled on February 21, 1985, that cargo preference should apply to blended credit shipments. The decision stated that, while the Court's ruling is limited to blended credit programs, the GSM-102 program falls within the literal meaning of cargo preference. Thus, the decision also poses a threat to the GSM-102 program.

In requiring that 50 percent of some shipments be carried on U.S.-flag vessels, cargo preference increases program costs since U.S.-flag vessels cost, at a minimum, $30 per ton more than foreign-flag vessels.

The cost differential is paid by the U.S. government. As an example, the costs of cargo preference for shipping commodities under titles I and III of P.L. 480 were $77.6 million in 1983, $97.5 million in 1984, and are estimated at $118.3 million in 1985.

Under the blended credit program, every $1 of direct loans at zero interest (GSM-5) was "blended" with $4 of federally guaranteed commercial loans at market rates (GSM-102). This combination was used to create a credit package to encourage developing countries to buy agricultural commodities commercially from the U.S.

The application of cargo preference to the blended credit program would cost an additional $50 to $70 million; this is more than the entire program's cost to the government. The only costs to the government for the blended credit program was the foregone interest on one-fifth of the value of the commodity shipped.

With the Court ruling, the cost-effectiveness of the blended credit program was lost. Accordingly, on February 26, 1985, USDA suspended the blended credit program, cancelling registrations under the program for sales to Egypt, Iraq, Morocco, and Tunisia.

Urgent steps are needed to restore the blended credit program and remove the threat to the GSM-102 program.

If the blended credit program is not restored, the U.S. could lose 3.3 million metric tons of wheat and wheat product exports programmed for the fiscal year ending September 30, 1985. These exports are valued at roughly $500 million.

Perhaps even more serious than this immediate loss is the possibility that, if cargo preference requirements were applied to the GSM-102 program, this program too could be discontinued. For the fiscal year beginning October 1, 1985, USDA has allocated $5 billion for the GSM-102 loan guarantee program.

Some have estimated that losing this credit guarantee program could slash U.S. wheat exports by nearly 200 million bushels for 1985/86, losing sales worth about $700 million.

Such a drop in exports would be devastating to not only farmers, but all aspects of agriculture—equipment, feed, and seed dealers, grain merchandisers, and processors, and the many others whose livelihoods are directly related to agriculture. Jobs would also be lost in export related areas such as longshoring and at ports.

Agriculture is this nation's largest employer, providing over 23 million jobs. Agriculture accounts for 20 percent of the United States' gross national product. The economic ripples felt by such a loss in exports would be nation-wide.

The National Grain Trade Council is deeply concerned by the impact of the Court decision, the loss of the blended credit program, and the potential loss of the GSM-102 program.

Quick congressional action is urgently needed to pass S. 721 and forestall the possibility of further dramatic loss of grain exports that may occur without these important export programs.

We regard passage of S. 721 as an important first step. The Council also supports legislation to completely exempt agricultural shipments from cargo preference requirements.

We believe it is inequitable to have funds intended for food aid to be used to subsidize the U.S. maritime industry. If the maritime industry should be subsidized, this subsidy should be handled in a more appropriate fashion and not hidden in the USDA budget.

ASSOCIATIONS AND COMPANIES SUPPORTING CLARIFICATION AND LIMITATIONS ON THE APPLICATION OF CARGO PREFERENCE FOR AGRICULTURE PROGRAMS

Agprocessing, Inc.; Agra Land, Inc.; Agri Industries; American Rice Inc.; American Soybean Association; The Andersons; Arizona Forage and Grain Growers Association; Bunge Corporation; California Association of Wheat Growers; Cargill, Inc.; Colorado Association of Wheat Growers; Commercial Exchange of Philadelphia; ConAgra, Inc.; Continental Grain Company; Denver Grain Exchange; Enid Board of Trade; Farmland, Inc.; Farmers Export Company; Farmers Grain Cooperative; Farmers Grain Terminal, Inc.; Farmers Rice Cooperative; The Fertilizer Institute; Garnac Grain Company, Inc.; Gold Kist Inc.; Growmark, Inc.

Harvest States Cooperatives; Idaho State Wheat Growers Association; Indiana Grain; Kansas Association of Wheat Growers; Landmark Inc.; Land O'Lakes, Inc.; Lincoln Grain Exchange; Lincoln Grain, Inc.; Louis Dreyfus Corp.; Merchants' Exchange of St. Louis; Mid-States Terminals, Inc.; Millers' National Federation; Minneapolis Grain Exchange; Minnesota Association of Wheat Growers; Missouri Farmers Association, Inc.; Missi-sippi Federated Cooperative Services; Montana Grain Growers Association; National Association of Wheat Growers; National Corn Growers Association (16 affiliated state corn grower organizations: Colorado, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Minnesota, Missouri, Nebraska, North Carolina, Ohio, Pennsylvania, Virginia, Wisconsin); National Cotton Council; National Council of Farmer Cooperatives; National Fertilizer Solutions Association; National Forest Products Association; National Grange; Nebraska Wheat Growers Association; New Mexico Wheat Growers Association; North American Export Grain Association; North Dakota Wheat Producers; National Grain Trade Council.

Ohio Farmers Grain and Supply Association; Oklahoma Grain and Feed Association; Oklahoma Wheat Growers Association; Omaha Grain Exchange; Oregon Wheat Growers League; Peoria Board of Trade; Rice Growers Association of California; Riceland Foods; Rice Millers Association; Sioux City Grain Exchange; South Dakota Wheat Producers, Inc.; Southern States Cooperatives, Inc.; Terminal Grain Corp.; Terminal Elevator Grain Merchants Association; Texas Wheat Producers Association; Tobacco Associates Inc.; toledo Board of Trade; Union Equity Co-operative Exchange; United Grain Corp.; U.S.A. Dry Pea and Lentil Council; U.S. Durum Growers Association; Washington Association of Wheat Growers; Wyoming Wheat Growers Association.

[Telegram]

APRIL 4, 1985.

Re hearing on Public Law 480 and exports.

Hon. JESSE HELMS,
U.S. Senate,
Washington, DC.

DEAR SENATOR: On behalf of the member companies of the Council of American-Flag Ship Operators [CASO], I would like to register strong exception to consideration by the full Committee on Agriculture today of cargo preference issues during a hearing on Public Law 480 and exports which we learned about only late yesterday and then indirectly. Neither CASO nor its member companies were invited to testify on this issue which is of vital importance to U.S. flag ocean carriers nor provided any time to prepare should we have been permitted to testify.

We know of no reason why the rules of ordinary procedure and fairness should not be followed in this instance and that all interested parties be provided notice and reasonable opportunity to prepare testimony on this issue as on any other so that your committee might have the benefit of all views on such an important national issue.

We respectfully request that committee consideration of S. 721 and similar bills dealing with the issue of long-standing statutory cargo preference for the transportation of Government impelled cargoes be rescheduled accordingly.

J.L. HOLLOWAY III,
President,
Council of American-Flag Ship Operators.

[S. 721, 99th Cong., 1st Sess.]

A BILL To amend the Commodity Credit Corporation Charter Act regarding the export of agricultural commodities

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Agricultural Trade Amendment Act of 1985".

SEC. 2. Section 5 of the Commodity Credit Corporation Charter Act is amended by adding at the end thereof a new sentence as follows: "Export activities of the Corporation under this Act, and activities of the Corporation or the Secretary to promote the export of agricultural commodities under any other Act, shall not be subject to cargo preference requirements, except with respect to exports under the Agricultural Trade Development and Assistance Act of 1954.".

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